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Mr Akshay Kaul
Director, Ofgem
By email: Akshay.Kaul@Ofgem.gov.uk
RIIO2@Ofgem.gov.uk

Cc. Mr Steve Fraser
Chief Executive, Cadent
By email: Steve.Fraser@cadentgas.com

Dear Akshay

Cadent's independent Customer Engagement Group
Response to the RIIO-2 Draft Determination for Cadent

As Cadent's independent Customer Engagement Group (CEG) we are pleased to report the Group's views on Ofgem's Draft Determination (DD) on Cadent's Business Plan for 2021 to 2026 and the regulator's associated consultation questions. We have not commented on Cadent's response to the DD as we have not yet had full visibility of the latter, but we are happy to do so once this is available. This response is not confidential and can be published.

Introduction

The CEG is independent of Cadent and of Ofgem. Our primary aim is to provide independent scrutiny and challenge to Cadent and impartial views to the regulator to inform its decision making. We have a particular focus on ensuring the business plan considers and addresses the interests (needs and preferences) of its current and future stakeholders including customers, consumers and its communities.

The Group has been in operation since September 2018. Our membership and activity that has informed our response, our terms of reference, and our cost and impact is outlined on our website[1]. We note that we are not required to respond to this DD but have chosen to do so as we believe it is in the interests of Cadent's stakeholders. Our detailed views on the company's business plan are outlined in our December 2019 report to Ofgem and associated appendices and annexes[2].

This cover letter outlines our high-level messages to Ofgem. We have also responded to the Core (p.11), Gas Distribution Network (p.43) and Cadent specific consultation questions (p.61) where we feel well placed to do so. These are attached below.

Context

The Cadent CEG acknowledges and welcomes Ofgem's openness to feedback on its Draft Determination and the flexibility it has demonstrated to date in its proposed adjustments to its Sector Specific Methodology Decision (SSMD). This is particularly important given the need for more adaptive regulation against the changing context including: the impact of the Covid-19 pandemic; the need to make urgent progress on net zero during the RIIO-2 period in order to meet legislation; and ever evolving customer needs and expectations.

[1] https://cadentgas.com/about-us/engagement/customer-engagement-group
[2] https://cadentgas.com/nggdwsdev/media/Downloads/about/ceg/CEG%20report/Cadent-CEG-report-with-appendices.pdf

1. **We welcome Ofgem's strong focus on cost efficiency and note the decision to push Cadent further in this area**

We outlined in our December CEG report to Ofgem how we had scrutinised the company's efficiency plans given that this is a critical element of the price control in delivering value for money for network customers. We also acknowledged that ultimately the regulator is best placed to give a view in this area given its greater access to information and ability to compare plans across different networks. It is reasonable to expect that customers do not want to pay more than is necessary for the outcomes they have expressed they want and need, despite willingness to pay findings.

We are aware that Cadent is challenging Ofgem in relation to a number of aspects of the efficiency modelling. In many of these cases, Cadent has says it has identified potential errors in the data used by Ofgem or in the way that the models have been applied. In other cases, the nature of the challenge relates the reasonableness of judgements made by Ofgem. By their nature, these points are generally detailed and technical, and we are not in a position to provide a view. We do, however, note that Cadent's evaluation of the combined impact of the issues it raises is highly material. We therefore look forward to hearing the outcome of those discussions.

2. **A material proportion of the costs disallowed by Ofgem in the DD are associated with workload. We therefore seek assurances that the short-term bill cuts outlined in the DD will not be at the expense of wider outcomes valued by customers, especially safety and tackling consumer vulnerability.**

We note that Ofgem has disallowed repex workloads associated with steel (410km) and iron (46km) which Cadent considers to be high-risk but for which payback is beyond 2037. This repex relates to mains that Cadent has said should be replaced on safety grounds, and which aren't covered by the mandated IMRRP scheme. Overall repex workloads allowed for are c8,000km (of which around 150km relate to small diameter steel) but with no allowance for mains that will fall within the mandated IMRRP scheme for the first time during RIIO-GD2. We seek assurances from Ofgem that disallowing Cadent's proposed investment in the remediation of these pipes will not impact customer safety. Safety is of course a key customer priority and Cadent's acceptability testing demonstrated broad support for their plans. Notwithstanding this, we believe that Ofgem is right to challenge Cadent on whether there are alternative risk remediation measures that can be deployed to properly manage the steel pipe population in a more cost-effective way. Our understanding is that it may be possible to devise enhanced maintenance regimes for steel, but whether such regimes could manage the risk both adequately and economically would need to be carefully assessed. In general, we believe that any assessment of alternative regimes should consider the trade-off between the cost and safety benefits of the alternatives rather than simply aim to identify the 'cheapest' approach that manages risk below an acceptable level. See GDQ34.

Cadent's customers also supported work by the company to tackle the challenges for fuel poor customers and those in vulnerable situations. We discuss below our concerns about Ofgem's disallowances in this area.

3. **The CEG broadly welcomes the approach to managing net zero uncertainties including the package of reopeners and innovation funding but believes that the proposed mechanisms will create a very complex environment in which relevant parties are to operate. We therefore call on Ofgem to urgently develop a clear road map for the decisions. We also ask Ofgem to consider how the significant customer engagement necessary to support net zero can be taken forward.**

In the light of the revised Future Energy Scenarios published in July 2020[3] it is clear that significant progress will need to be made during the RIIO-2 period to start the energy system transition. For gas networks FES 2020 presents the challenge of creating hydrogen options for industrial users (essential under all scenarios presented) in addition to managing the potential shift to hydrogen for heating. Therefore we urge the regulator to set out as soon as possible how it will:

- *Take timely decisions* - Given the importance of many of the investments that have been moved to uncertainty mechanisms it is vital that when companies bring forward proposals Ofgem is geared up to take decisions in a timely way. A clearer articulation is needed of how Ofgem will achieve this and the timescales it will be working to, in particular for gas networks who will be engaging with two separate large UMs, plus the challenges under the SIF and also the arrangements for introducing competition into large projects. Taken together, this is a complex environment to manage.
- *Engage customers on the major changes ahead* - Little has been done to explain options to customers and to ask them what versions of the future they prefer. This engagement is essential to the success of the energy system transition. It is also not clear how appropriately robust engagement will be built into this process.
- *Recognise and address the potential costs and risks in delays to investment* - While "least regrets" is often cited as a model for decision making under uncertainty it is important that this looks at the costs and risks in the round. It is relatively easy to quantify the potential stranding risks if an investment turns out not to be needed but it is not clear that thought is always given to the risks of delay. If the network capacity is not available that may hinder the ability to meet net zero. If the need becomes more urgent then the costs of delivering against a compressed timetable could be higher.
- *Make clear the dependencies* - Make clear in its hydrogen roadmap dependencies between net zero programmes to be delivered by GDNs and other major development strands (e.g. hydrogen production), to improve forward visibility on UMs for all stakeholders.
- *Clarify the scale of proposals that can be accommodated and any limits on the overall scale of investment that may be funded* - in particular how it will consider the price impact on customers in making its UM decisions and how it will look to ensure that customers are kept informed about the ongoing impact on bills

We note that while we have raised these matters with reference to net zero in particular, the need for timely and effective decision-making, effective stakeholder engagement, and addressing the impact on customer bills is important for uncertainty mechanisms more generally.

[3] https://www.nationalgrideso.com/news/introducing-our-2020-future-energy-scenarios

4. **Given a significantly enhanced role for Uncertainty Mechanisms in this price control, we would encourage Ofgem to create transparent and well-defined routes for the decisions on spend that will be made during the price control period and which are additional to the levels in the Final Determination.**

Ofgem has proposed the use of UMs in many areas of significant expenditure, not least for net zero investment, discussed above. Such extensive use of UMs puts greater responsibility on the networks and Ofgem throughout the course of the price control period. Transparency and clarity, including a no-surprises approach to the use of the 'anytime re-opener', will be helpful for all stakeholders in engaging with the process.

We also note that there are a number of areas of expenditure that Ofgem has removed from totex and is proposing to fund entirely via UMs despite the fact that a significant proportion of the expenditure is likely to be required in any event. IS and the London Medium Pressure project are notable examples. We would encourage Ofgem to include a proportion of the likely expenditure within base funding such that the residual element to be funded via UMs better represents the component of the total that is genuinely uncertain. This approach would provide greater clarity over costs and bill impacts for customers and Cadent and avoid any potential delay that triggering UMs could introduce.

5. **Ofgem should be wary of unintended consequences and perverse incentives of its DD decisions**

In our responses to the individual consultation questions, we have noted a number of areas where we would encourage Ofgem to give careful consideration to the detail of its proposals when formulating the Final Determination in order to avoid unintended consequences and/or perverse incentives. We are concerned that while the intention of the regulation is generally sensible in these cases, there is a risk that the measures fail to fulfil their intended purpose adequately as a result of 'devil in the detail':

- The structure of the ODI-F for unplanned interruptions, where the potential for distortion from combining the different types of interruption diminishes the value of the incentive and potentially distracts the GDNs attention away from its intended focus of reducing the duration of interruptions for customers - see GDQ1
- The structure of the Repex Tier 1 Mains and Tier 1 Services PCDs, where late changes to the proposals risk unintended consequences both through an increased administrative burden and the potential creation of perverse incentives for inefficient investment if unit cost allowances are not set accurately - see GDQ 16,17 & 19
- The rules for the proposed common re-opener, where a fine balance must be struck between, on one hand, avoiding a large regulatory burden resulting from frequent applications by the network companies and, on the other hand, creating perverse incentives on the companies to delay or avoid work that is in the interests of their customers if they are concerned that the work won't be funded - see Core Question 12.
- The processes for the adjustment of funding and penalties relating to NARMS, which on the face of it appear to monitor the delivery of outputs at a relatively low level. While we welcome the desire to prevent windfall gains, it seems possible that these rules will distract or disincentive companies from seeking genuine efficiencies to deliver lower customer risk at less cost. (We are not able to comment on the details of the proposed mechanism).

6. **We encourage Ofgem to work with Cadent and other networks to improve the robustness of a greater number of bespoke ODIs and PCDs, rather than rejecting potentially good proposals on process grounds, which are valued and wanted by stakeholders.**

Ofgem has rejected 22 of Cadent's 23 bespoke ODIs and all of its bespoke PCDs. This is particularly worrying as in the regulator's words these are designed to "reflect the needs of and feedback that companies received from their consumers and other stakeholders".

The CEG recognises the significant task that Ofgem faced in reviewing more than 200 bespoke proposals in a relatively short space of time and that a number of Cadent's proposals were not robust enough. We welcome Ofgem leaving the door open for some of Cadent's proposals, encouraging the company to further develop these and resubmit them. In other cases we understand that the initiatives have been 'rejected' because the regulator is proposing alternative mechanisms which aim to deliver the same outcome that customers want e.g. rather than a bespoke ODI, inclusion in the Environmental Action Plan, or a new common ODI in the case of street works collaboration. In other instances, however, Cadent's proposals appear to have been rejected as the targets or metrics are not sufficiently developed, or the regulator disagrees with an aspect of the proposal, rather than because the overall evidence base or aspiration is flawed.

Ofgem has indicated that Cadent retains the opportunity to deliver a number of the bespoke outcomes and welcomes the company's ambition in some cases. It is possible to interpret this as an expectation on the part of Ofgem. However, in the context of a tough financial settlement, we have strong concerns that there won't be sufficient incentive for the company to do this. The reality is, what gets measured gets done and experience tells us that KPIs do not carry comparable weight. Cadent has told us that with regards to the Final Determination their focus is on allowed totex spend and efficiencies as the scale of difference between the DD proposals and their plan, which was aimed at setting the industry benchmark in a number of areas, is so significant. The CEG has concerns that the company's focus will be on arguing for aspects of the plan that are financially more material and that Cadent will not sufficiently champion monetarily relatively minor/reputational ODIs/PCDs that matter to customers and that in many instances we have challenged them to develop.

The nature of these bespoke proposals is that they are innovative, and as with all innovation it may not always be possible to get it right first time. We'd encourage Ofgem to work with Cadent to develop the following proposals in particular which we believe have good customer and stakeholder support, positive social return on investment and are especially relevant in the current context:

Bespoke ODIs

- Measuring and enhancing inclusivity, which should improve the accessibility of all its services, not just for those on the Priority Services Register (PSR)
- Stakeholder measures - where we think Ofgem may have misunderstood the aim of the ODI, and think a common ODI for all GDNs should be created
- Better roadworks information which builds on Cadent's successful pilot in this area and is of high importance to communities
- Connections standardisation to accelerate the rate of green gas entry

Bespoke PCDs

- Personalising welfare services which is consistent with Ofgem's proposed new vulnerability licence condition.

- Services beyond the meter, where Cadent aims to never leave a customer vulnerable without gas. In particular, proposals to repair and replace unsafe appliances for the most vulnerable - this has been a historic gap in protections and a problem raised by consumer groups for many years.
- Additional fuel poverty interventions and income and energy efficiency advice (see below).

Our detailed rationale for these is explained in Cadent consultation Q1 and Q3 p.61.

7. The Consumer Value Proposition (CVP) has seemingly been effective at driving more ambitious business plans, but we have less confidence that it will result in improvements in practice without some adjustments

The CVP has seemingly been effective at driving more ambitious business plans, but as the overwhelming majority of bespoke initiatives that underpin CVPs have been rejected, we query if, despite Ofgem's 'encouragement', improvements will now be delivered in practice. This is especially the case in the context of a tough financial settlement.

It is our view that Cadent made a genuine effort to deliver a relatively ambitious plan which responded to customer and wider stakeholder priorities and reflected its new vision statement to deliver standards customers love and others aspire to. A number of its proposals were innovative, showed leadership, and addressed historic problems that stepped out of the traditional role of a GDN but which were still in line with consumer and stakeholder views and its role as a monopoly provider. They strived to deliver noteworthy improvements for customers and communities. A couple were consequently adopted as the basis of common ODIs as a result. However, under the CVP approach the company has received little recognition for its efforts and there are seemingly weak drivers for it to deliver on its now rejected proposals.

The CEG felt that the CVP methodology was fundamentally flawed and in particular did not agree with the mechanism to calculate rewards. Nonetheless to ensure customers do not miss out and to provide a little credit where it is due, we suggest that Ofgem:

- Consider the package of CVP proposals in the round taking into consideration customer and stakeholder views and the social return on investment (but not as a way to calculate rewards).
- Provide greater transparency around the benchmarking it has done and to demonstrate how supported and rewarded CVPs go above and beyond good but standard practice.
- Provide some kind of nominal reward or recognition for companies who deliver on the aspirations of their CVPs at the end of RIIO-2 to provide some incentive for delivery- though not in line with the CVP rewards methodology proposed which we do not think would be fair, proportionate or in line with customers willingness to pay.

8. **We urge Ofgem to be more outcomes focussed in its Final Determination and more transparent about how it has reached its decisions and taken into account stakeholder including customer views. This is important for trust, credibility and legitimacy.**

Ofgem's DD says a key focus is putting customers at the heart of decision making but it is hard to see how this is reflected in practice in the Draft Determination given its structure and the level of detail provided. Ofgem's overview document for example includes no reference to customer views or engagement[4] . While there has been some acknowledgement in the wider consultation documents of customer priorities in areas like collaboration around streetworks, timed appointments, and net zero, in other areas such as on consumer vulnerability, responsible business, fuel poverty and customer service standards, there is less recognition of customer views and this is concerning.

For example, Ofgem has decided to double payments related to GSOP. We are not clear about the evidence base that underpins this. Cadent's research indicated that many customers were not willing to cross subsidise increases in goodwill payments beyond the current rates, preferred a focus on preventing interruptions in the first place, and that when interruptions occurred they wanted an explanation and an apology. Cadent also identified customer willingness to cross subsidise significantly higher levels of social support than Ofgem is permitting. Ofgem has proposed a common streetworks ODI for Cadent and SGN only, but it hard to believe that this would not also be valued by consumers of other networks.

Ofgem should explain how it has considered customer and stakeholder views and provide a clear line of sight between the outcomes customers say they want and the Final Determination (FD). Failure to demonstrate how stakeholder views have informed Ofgem's decisions will undermine trust in the regulator, leave it open to challenge, and discourage individuals and organisations from engaging with companies in the future.

We'd encourage Ofgem to learn the lessons from the water sector. Ofwat has recently come under criticism for not 'walking the talk' on engagement in its final business plan determinations. Due to an initial lack of transparency, to varying degrees, water companies appealing their determinations to the CMA accused Ofwat of ignoring, misinterpreting or giving insufficient weight to consumer views in making its final decisions[5]. The Gray report in 2011 also "cautioned" that while the final decision in a price control should sit with the regulator, that "Ofwat should be careful about substituting its own views for those of customers or expressed by or through the consumer representative."[6] We'd issue similar words of caution to Ofgem particularly as it has not yet demonstrated that customer (as opposed the industry dominated working groups) insight informed its RIIO-2 methodology or Draft Determination decisions, nor has it successfully engaged widely with a representative range of interested and impacted non-industry parties.

[4] https://www.ofgem.gov.uk/system/files/docs/2020/07/riio-2_draft_determinations_overview.pdf

[5] https://www.citizensadvice.org.uk/about-us/policy/policy-research-topics/water-consultation-responses/water-companies-use-of-customer-engagement-in-their-pr19-redetermination-statements-to-the-cma/

[6]https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/69442/ofwat-review-2011.pdf

9. **Cadent has made good progress on consumer engagement over RIIO-1 but like many networks still lacks maturity in this area. We recommend further steps to ensure progress continues and is fit for the future including net zero.**

Notwithstanding the company's progress on consumer engagement over RIIO-1, the company still lacks maturity in this area and has yet to fully embed a customer and stakeholder focussed approach throughout its business. We support therefore Ofgem's proposal for a role for CEGs to monitor progress in this area. This should include an opportunity for Groups to come together to benchmark activity, given the lack of consensus on what 'good quality engagement' looks like. In addition, we encourage the regulator to:

- *Consider net zero engagement* - We think that Ofgem should make clear its expectations on engagement on proposals brought forward under uncertainty mechanisms and consider the role for groups in this area, given the UMs potentially material impact on customers. In addition, ensure companies are kept informed about engagement by Ofgem on these issues, so customers have a consistent view of the complex landscape.
- *Provide greater feedback on the quality of engagement* undertaken by the companies for the business plan in line with Ofwat's initial assessment of business plans for PR19[7]. This is particularly important given the high cost of research activity, paid for by customers, and the time and resources invested by stakeholders in engaging with the companies. Failure to do so would send the wrong message and risks undermining progress on engagement to date.
- *Require companies to produce an annual insight report* which summarises engagement activity, new consumer and stakeholder insight, and outlines how this has informed its approach. This would help monitor its aspiration for 'ongoing' engagement, is particularly important given the discontinuation of the Stakeholder Engagement Incentive (SEI) reporting and would be valuable to wider stakeholders.
- *Introduce a reputational common stakeholder satisfaction measure for GDNs (in addition to the customer service satisfaction ODI)* as Cadent proposed, given the importance of collaborative approaches and partnership working. This supports all policy areas.
- *Revisit Cadent's enhanced engagement on whole systems ODI* perhaps as a reputational outcome. There does not appear to be any mechanism that supports up front engagement to develop plans or projects with other regulated companies or the energy system actors or more widely.

10. **Ofgem should *require* companies to continue their CEGs/User Groups and use the Groups to support its moves to more adaptive regulation and to strengthen accountability for reputational-only outputs in particular.**

Perhaps not unsurprisingly, we support an enduring role for the company-only groups but with a mechanism for Chairs to come together to benchmark in key areas like engagement, Environmental Action Plan, net zero. As our costs and impacts report[8] shows, the Groups can play a useful role in holding the company to account in its business plan commitments, improving the quality of submissions to the regulator, driving higher standards and cultural change in a timely way. This may be particularly valuable for elements of the Draft Determination where Ofgem has a heavy reliance on reputational drivers to deliver the outcomes that customers want e.g. in the case of Cadent, its Trust Agenda, environmental commitments, customer engagement, consumer vulnerability strategy, whole systems, digitalisation and innovation. The Groups could also play a role in scrutinising uncertainty mechanisms and innovation proposals to improve their robustness and clarity. We

[7] https://www.ofwat.gov.uk/wp-content/uploads/2019/01/PR19-initial-assessment-of-plans-Summary-of-test-area-assessment.pdf
[8] https://cadentgas.com/about-us/engagement/customer-engagement-group

believe that customers will benefit from the enhanced scrutiny GDNs will receive as a result of this approach, relative to RIIO-1.

11. **Ofgem needs to consider if its decisions on data are unintentionally incentivising a tick box approach to digitalisation rather than encouraging and enabling the shift to more data driven decisions and operation and the innovative sharing and use of data.**

In addition to requiring companies to open their data, we would like to see Ofgem support them in taking an exploratory approach to digitalisation. We have concerns that the licence obligations, alongside cost constraints (particularly in IT), will allow for a tick-box approach to digitalisation. The CEG has encouraged Cadent to regard an open, digitalised environment as an opportunity for data-led business transformation that can add value and tailor outcomes for different customer groups. While encouraging Cadent to open its own data, we have challenged it to consider how to use data outside the asset domain, link its digitalisation and innovation strategies and be prepared for positive disruption to business processes. We consider data openness to be important in facilitating a move to a whole-systems approach. We are concerned that in wholly or partially rejecting UMs, data-led initiatives are also rejected (e.g. using traffic data in streetworks, targeting customers in fuel poverty, publishing data on available network capacity and hot-spot CO data). We think pathfinder projects will provide important learning as companies iterate their digital strategies and would like to see Ofgem explore options to support early-stage digital initiatives to complement its licence obligations.

12. **There is much that is positive for vulnerable consumers in Ofgem's DD, but collectively the proposed package doesn't yet deliver what customers and stakeholders need and expect in terms of accessibility, safety and affordability outcomes. This includes the scale of support, type of support, and who should be eligible. The approach is not obviously aligned with Ofgem's Consumer Vulnerability Strategy and it does not deliver on the stated aims of the SSMD.**

The RIIO-2 Challenge Group report states "The gas distribution companies generally showed a good understanding of vulnerability and how to support their customers. Cadent has shown real ambition in this area compared to other gas distribution companies and could raise the standards across the sector if it can deliver it.[9]" Cadent's approach was generally supported by stakeholders, including customers but was largely rejected by Ofgem. We urge Ofgem to:

- *Review to size of the consumer vulnerability funding envelope* especially in light of Covid-19 and consumer willingness to pay. We think the proposed £30m UIOLI allowance for all companies regardless of need, ambition, or proposals, risks being out of step with public opinion and does not reflect regional differences. Ofgem also needs to clarify how standard good practice will be funded if the Network Innovation Allowance (NIA) and UIOLI allowance is focused on activity that is innovative or goes 'beyond business as usual'. In addition, what its expectations are regarding how much of the NIA funding will be spent on consumer vulnerability initiatives. There are legitimacy questions here for Ofgem given its limited engagement on this issue.
- *Enable GDNs to deliver a wider range of measures to tackle fuel poverty not just the FPNES* in line with good practice, stakeholder preferences, and wider government fuel poverty sustainability policy. While we acknowledge that fuel poverty policy is for government, we believe that Ofgem could and should have some discretion in its decision around energy efficiency measures and income advice in particular. This is especially the case in light of the

[9] https://www.ofgem.gov.uk/system/files/docs/2020/01/riio-2_challenge_group_independent_report_for_ofgem_on_riio-2_business_plans.pdf p.5

publication of BEIS' draft Fuel Poverty Strategy for England that highlights the potential benefits of households receiving more than one measure in a single visit, stresses the importance of collaboration across energy companies and other parties, and the need to employ the most cost effective approaches. Also, the wider focus on net zero. In addition, Cadent's customer research indicated that people felt that GDN's affordability support should not just be limited to those without a gas connection.

Enable companies to safeguard customers who are highly vulnerable but not on the Priority Services Register as that is what customers and stakeholders have said they want and need. This includes supporting Cadent's approach to never leave a customer vulnerable without gas by providing tailored welfare services to the most vulnerable customers during an outage and in particular proposals to repair and replace faulty or condemned appliances. The latter plugs an important gap in protections and falls squarely within the kind of safeguarding activity that GDNs should and could be doing.

- Monitor current and ongoing service provision for customers in vulnerable situations as Ofgem does for suppliers - it seems from Ofgem's commentary in the DD that the regulator has poor visibility of current GDN practice and good practice in this area. Monitoring will be needed to set an appropriate baseline, ensure companies "continue to improve" as the SSMD's intention states, and that practice funded and developed under the Use it or Lose It allowance and NIA become business as usual as intended. This would also support the intention of the proposed new consumer vulnerability principle.
- *Provide feedback on the companies' consumer vulnerability strategies and require CEGs to monitor progress on this* - linked to above, Ofgem has not assessed or benchmarked the companies consumer vulnerability strategies as a whole and has provided limited feedback on what it thinks good practice looks like. Without benchmarks it is hard to see how it can assess what does or doesn't go beyond BAU for the UIOLI allowance. Ofgem sponsored Sustainability First's Project Inspire report which included good practice guides for accessibility, safety and identifying vulnerability which could help Ofgem with this activity[10]. Such an approach would also be consistent with its own Consumer Vulnerability Strategy.
- *Importantly, update the DD decisions in line with Ofgem's Consumer Vulnerability Strategy (CVS)* which has been published since the SSMD was finalised. The joined-up approach adopted for ED2 is noticeably different in this regard. For example, CVS Outcome 4A and 3E has a focus on inclusive service design: we urge Ofgem to work with Cadent on its reputational-only inclusive service provision metric which aims to ensure key services are accessible to all customers, not just the minority captured on the PSR. Ofgem also rejected Cadent's proposals to better identify consumer vulnerability and fuel poverty, contrary to CVS Outcomes 1C, 2D, 3A, 3B. Cadent's reputational stakeholder engagement ODI would also support Ofgem's ambition for greater partnership working.

We are happy to answer questions on any part of this response.

Yours sincerely

Zoe McLeod
Independent Chair
Cadent Customer Engagement Group
Zoe.McLeod@gmail.com

[10] https://www.sustainabilityfirst.org.uk/images/publications/inspire/Energy%20for%20All-%20Innovate%20for%20All%20(full).pdf

RIIO-2 Draft Determination - Cadent independent CEG's response to consultation questions

Core consultation

Enduring role of the CEGs and UGs

Q1. What role should Groups play during the price control period and what type of output should Groups be asked to deliver? Who should be the recipients of these outputs (companies, Ofgem and/or stakeholders)?

Company-only groups
We support an ongoing role for the company-only groups during the price control period with a mechanism for the groups to come together to enable cross-company benchmarking and information sharing (see strengthening the role of the groups below) and Figure 1 Advantages/disadvantages of different engagement models.

As demonstrated by our impact assessment (and the table below) we believe that the CEG-type model can deliver significant value to the company and its stakeholders, and in particular strengthen the consumer voice in network company decision-making. This is especially important as there are relatively few consumer organisations and NGOs that have appropriate expertise and understanding to input into the price control process or who understand network businesses. The groups can support Ofgem in its move to more adaptive regulation and help accelerate cultural change needed for example on digitalisation, innovation and engagement and whole systems outlooks. With a trusted relationship with Ofgem, they can help to address the ongoing issue of information asymmetry between the company and the regulator including providing more qualitative insights on the company culture and additional information to support Ofgem's proposed monitoring framework.

Role
The company-only groups could have the following role during the price review period:

1. *Scrutinise and challenge proposals and reports going to Ofgem*. As demonstrated, early challenge by the groups resulted in substantial improvements to the company's business plans, reducing the amount of follow-up questions required by the regulator and the RIIO-2 Challenge Group. Going forward the Groups could scrutinise proposals which are developed under the uncertainty mechanisms, helping to improve the robustness and clarity of proposals thus enabling more timely decision-making by Ofgem and reducing costs. The Cadent CEG has a Finance and Investment Working Group (FIWG) and a Future Role of Gas working group (FROG) which are well placed to perform this role. Some groups may have to update their membership to be equipped to do so. The Groups could also scrutinise other reports to Ofgem to help improve their quality and potentially provide independent views e.g. the digitalisation and the Environmental Action Plans. This would benefit the company, the regulator, and stakeholders by supporting more timely improvements.

2. *Hold the company to account on the promises made in its business plan - in particular those without financial incentives.* This is especially important as history teaches us that a relatively tough financial settlement can result in companies cutting what they see as 'non-essential' spend. Ofgem is relying heavily on reputational incentives for a number of outcomes that are a priority for customers including proposals to improve the environment and sustainability, consumer vulnerability and affordability. In addition, the majority of

bespoke ODIs and PCDs were rejected, but the regulator is still encouraging companies to deliver these. The CEGs can encourage the continued delivery of these outcomes and strengthen reputational levers by challenging the company in these areas and highlighting non-delivery. In addition, importantly, the groups can shine a spotlight on and give credit to companies for good practice. For example, progress made on responsible business. Linked to this the Groups could have a role to play in increasing transparency on performance and decision making through more proactive and outward facing communications activity.

3. *Ensuring company decision making reflects and responds to the changing needs of its customers and society.* Ofgem has outlined its expectation that companies 'respond to changes across the energy sector and put their stakeholders at the heart of the way they run their businesses.' The RIIO-1 Stakeholder Engagement Incentive was useful in catalysing a step change on engagement activity, but the judging panel approach was criticised (including by judges themselves), in part for encouraging what was seen as sparkly engagement at the expense of more mundane but arguably more useful day to day activity. As financial incentives were in place for RIIO-1, Ofgem rightly expects good quality stakeholder engagement to be business as usual for companies during RIIO-2. The enhanced engagement approach with the setting up of the CEGs and User Groups has helped to ensure business plans are more focussed on the needs of their consumers but there are seemingly few mechanisms to encourage *ongoing* engagement during the price control period despite the engagement strategies which have been developed. In practice, there is still cultural change needed by networks such as Cadent in this area and not all companies yet have sufficient expertise to do this well. In particular there is a challenge for all GDNs to ensure they are engaging with the right people, at the right time, on the right issues and importantly that feedback from that engagement is turned into meaningful insight that drives decision making in a *timely* way. This will be particularly important with the challenges of net zero.

   Ofgem has proposed a common customer satisfaction ODI, including for customers on the Priority Services Register (PSR), but this is by its nature very limited in scope, and will not deliver on Ofgem's aspiration that companies reflect the wider changing needs of its customers and society. Given that Ofgem appears to have rejected the GDN's proposed bespoke engagement ODIs and PCDs, including those related to wider stakeholders and whole systems; also as little feedback has been given to companies on their engagement activity on the plans by the regulator; and as there is currently a lack of transparency as to how stakeholder views from their engagement have influenced its decisions, there is arguably a greater risk that companies will scale back their focus on engagement and default to being more regulatory and less stakeholder-led. This backward step would be particularly unwelcome when the current uncertain context means stakeholder engagement and the ability to respond to changing needs is all the more important.

   There is consequently an especially useful role for the CEGs to play in supporting continued progress on engagement and in supporting Ofgem in the delivery of its aspirations in this area. This could be achieved by the Groups:
   - Providing independent feedback and scrutiny to the company on its engagement activities and how it uses its insight. Most CEGs already have engagement and research experts who are well placed to comment on these areas.
   - Providing feedback to the regulator and wider stakeholders on the progress the company is making on its engagement strategy and the quality of its engagement activity. Shining a spotlight on good practice, weak practice and lessons learned.

- Requiring an annual stakeholder insight report from the company and challenging the company to demonstrate how it will use insight from consumers to inform its decision making. This could include key learning from that year for each policy area e.g. customer service, environment, net zero. Such a report would ensure new issues and changing views of stakeholders were captured and acted on. If it were published it could be used by Ofgem and other stakeholders to inform their decision making and ensure maximum value from engagement activities paid for by customers.
- Cross-company benchmarking - A challenge to date has been that CEGs and the RIIO-2 challenge group have different ideas as to what good quality engagement looks like. We would therefore encourage some kind of cross-CEG group to be set up annually (to include the CEG Chair plus a nominated specialist from the CEG) to undertake engagement benchmarking and moderation. This cross network CEG group or the groups individually, could then highlight with more confidence particularly good practice, helping to incentivise further improvements across all companies in a timely way rather than waiting for the next busines plan cycle.

4. *Critical friend/sounding board to the company* - most GDNs recognise the value of early challenge to their business. The groups can provide useful challenge on strategy, culture, processes and day to day decision making e.g. provide input and challenge on priorities and activities and individual proposals and reports. The company only groups can also help to accelerate cultural change needed in key areas such as digitalisation, innovation, whole-systems working and engagement by consistently raising these issues with policy teams who may historically have been inclined to silo working.

5. *Providing advice and challenge to Ofgem's on its wider policy decision making, including the development of RIIO-3 framework.* Early and independent challenge is useful to any organisation. The Groups have collectively a wealth of expertise, knowledge and understanding of the companies and network price controls. It would be a missed opportunity not to capitalise on this 'free to the regulator' expertise.

Outputs and their recipients

- We think the primary output should be an *accessible published annual report* (see Q4 below) which reports on company progress against its business plan promises and its engagement strategy among other areas. The main audience for this should be Ofgem and the network's key stakeholders. It should also be accessible to end consumers.
- We also propose companies produce an annual stakeholder insight report covering each policy area (e.g. net zero, environment consumer vulnerability, responsible business, resilience). This would be a high-level report on the research and engagement undertaken; the key feedback and insight from customers and stakeholders in terms of their priorities, needs and changing attitudes; and how companies propose to use the insight. In addition, CEG views.
- All Groups should have a Challenge Log or equivalent so there is an audit trail of activity. The Cadent CEG defines a challenge as a recommendation to Cadent, in line with the role and remit of the CEG, for action that has the potential to result in a) A change to the business plan b) Change in policy and practice c) Change in culture. It records among other things, the requested Challenge, the company response including any evidence and the CEG view on the company response.

- Each Group should have an up to date website which provides information on the membership, role, activity, impact and estimated cost per customer of the group. This is important for transparency and accountability.
- Most Groups already provide some kind of reporting to the company Executive team and its Board. There is no need to require this as companies ask for what they need and CEGs tend to escalate issues to the Board or leadership teams as required. Ofgem may wish to be notified of any issues which are escalated to the Board or outstanding Challenges at the end of each year.
- The Groups don't tend to have a public facing role with most communications activity confined to specialist industry media and events. The groups could undertake more public facing activity. E.g. issuing media releases on company performance. We think this is best left to the discretion of each group given the resource implications.

<u>Lessons learned</u>

We think the following steps should be taken to maximise the effectiveness of the groups.

- *We believe that 'an enduring role for the groups' needs to be required by Ofgem* or an expectation set by the regulator in this area in order to maximise both the independence and effectiveness of the company-only groups. A number of companies, including Cadent have committed to continue the Groups. Cadent says that it is opposed to a regulatory requirement in this area and that it is not needed. However, we believe that some kind of requirement (as opposed to a voluntary approach) is important to ensure the Groups continue to 'have teeth' and therefore to maximise their impact on behalf of customers and citizens. Without this there is a risk that more 'challenging' Groups in particular will be axed, ignored or side-lined especially if their views are uncomfortable to the company. This could incentivise more acquiescent behaviour by Groups. Also, even when there is a genuine acknowledgement of the value of the Groups to the business, and a commitment by the company to continue the Groups, they inevitably become a lower priority internally once the business plan is submitted. Where there are resource constraints and other priorities the quality of engagement with the Groups and the resourcing provided risks declining. We have seen this in the water sector where not all water companies continued their Customer Challenge Groups, senior leaders stopped engaging with the Groups and some of the worst performing companies who most needed the challenge cut them altogether at one stage.

- *Develop a trusted working relationship with Ofgem*. In order to safeguard the Groups independence and ensure a balanced view, it is important that the Groups aren't solely reliant on information provided by the company. We'd encourage Ofgem to set up regular meetings with each CEG Chair to informally discuss company performance, and to share learning, positive and negative about each network company. Similarly, the Groups should liaise with the statutory watchdog Citizens Advice which has access to contacts and complaints data about the networks to understand emerging issues. This would help with the Groups prioritisation activity and enable them to cross-check information provided by the company.

- *Ofgem continues to vet Chairs*- one of the strengths of Ofgem's enhanced engagement process (as opposed to Ofwat's) is that it approved CEG Chairs and was able to informally reject candidates that it considered were too close to the company. Also, that the company is required to notify the regulator, if a Chair leaves and it has to provide a reason for this. The former helps to safeguard independence and the latter prevents companies from removing a Chair simply because they are too challenging to the company. This should continue.

- *Benchmarking and a cross company group* - One of the key benefits of the RIIO-2 Challenge Group is its ability to see across all the companies and to benchmark accordingly. Alongside the company-only groups we recommend that CEG chairs meet regularly to share and benchmark company activity in key areas e.g. environment and net zero, engagement and consumer vulnerability. Also, we propose that the groups meet to share customer and stakeholder insight from the companies. Annual sharing of information would support Ofgem and the Groups better in the changing landscape, understand good practice and innovative practice and support us in pushing for timely improvements rather than waiting several years for the next business plan cycle.

- *Resourcing* - the breadth and depth of scrutiny undertaken by the Groups appears to vary significantly, as does the resourcing available; the skills and knowledge of members; and members expectations of time commitments involved in the role. We'd encourage Ofgem to set out its minimum expectations (recognising the resource implications) alongside its preferred outcome and allow the Groups flexibility around this.

<u>Rationale for our approach</u> - <u>Advantages/disadvantages of different models</u>
The CEGs/User Groups operate close to the companies (with secretariat provided by them) but arms-length (independent) from them. A single group we assume would be based within Ofgem (the regulator providing the secretariat) and operate across all companies as the RIIO-2 Challenge Group does. The User Groups are intended to be representative stakeholder groups and represent the interests of transmissions different constituencies. The CEGs and Challenge Group members are not intended to be representative (as a single group could never reflect the diversity of key stakeholders), though they may include key stakeholders and experts with particular understanding of the regions within which the company operates. Members operate in an independent capacity, not representing the views of the organisations they work with or for. We believe the approaches have the following strengths/weaknesses:

Area	One group per company	One group per sector
Depth versus breadth of scrutiny/challenge	The focus on a single company means Groups are better able to undertake both deep and broad scrutiny when needed. To date the quality, scope and level of challenge has varied across the Groups so it would be useful for Ofgem to set some minimum expectations. Groups will need to adapt their membership accordingly to ensure they have the relevant combination of expertise to fulfil any new role.	The process of evaluating the business plans has illustrated that given the number of companies there are practical limitations to in-depth scrutiny by a single group. The scrutiny is more likely to be broad, though it could be in-depth in a limited number of areas that are shared by all companies.
Benchmarking Comparative view	Are reliant on the expertise within the Group and wider information when benchmarking the company. This has led to differences of opinion across	Has the advantage of comparative view and can benchmark the companies relative to each other, helping to drive improvements

	the groups as to what good looks like. However, the approach provides the regulator/company with ‘out of sector’ view on what good looks with the potential to set cross-sector benchmarks. This could be addressed by a benchmarking exercise between CEG/user group chairs.	(the power of reputational regulation). However, in a sector already prone to pack behaviour and group think, need to be careful comparative reviews don’t result in ‘levelling down’ and a loss of innovation and diversity. Cross-sector or ‘out of sector’ benchmarking is required to raise ambition levels. The Group could also highlight where companies would be well placed to work together. As per the company-only model, Groups are reliant on expertise within the Group and wider information when understanding what good practice looks like. Cross-sector group would be well placed to do a deep dive on external issues e.g. network usage or digitalisation. These may benefit from a time-limited working group.
Independence and trust	There is greater risk of company capture given the proximity to the company. However, the Groups are also able to develop more trusted relationships with the companies at all levels (board level to operational staff) which can lead to greater access of information and increased ability to influence in the interests of customers. Groups can provide a more trusted space in which new ideas or approaches can be put forward. Risk of capture can be mitigated through good practice governance arrangements, effective working relationships with Ofgem and ensuring access to information which is provided by sources other than the company.	The Group is clearly independent from the company. However, based within Ofgem it would likely be seen as an extension of the regulator. The reality is this doesn’t encourage open and transparent sharing of information by the companies. The Group would get a ‘sales pitch’ from the company.
Ability to influence in the interests of consumers - flexibility where needed	The Groups are better placed to influence the company before decisions are finalised and in a timely way. Members linked to local networks can also provide early warning of problems/concerns to the company enabling issues to be tackled earlier. Dependent on the	Less flexible given the likely necessity for forward agendas that are communicated to all companies equally. Harder to influence companies in a timely way. More likely to be providing views on already worked up ideas, later in the process. A central

	performance and 'stage of development/journey' of a company they may need more or less scrutiny/challenge overall or in given areas. Also, companies have different priorities, which the Group's activity can reflect.	group could be a critical friend to Ofgem in the development of the RIIO-3 methodology. This could be a safe space for the regulator to share its early thinking ahead of wider stakeholder engagement. This could also be achieved with the CEG/User Group chairs.
Customer/ stakeholder priorities and needs	The companies vary in terms of size, their strengths, weaknesses and journey in terms of performance. The Groups are well placed to focus on those issues most relevant to the companies they challenge and the needs and preferences of their stakeholders and customers. An annual or six-monthly discussion between Ofgem and the Groups could also help to ensure the Groups are also focussed on issues of concern to the regulator. Direct relationship also means the group can be very fleet of foot if a particular issue emerges.	Harder for a cross-sector group to adapt its approach to company specific issues. Less connection to the needs and priorities of customers without greater access to consumer insight from the companies. More likely to be legitimacy issues especially when compared to the user groups which are stakeholder groups.
Perspectives	Groups have a grass roots perspective of the business and are better placed to comment on and influence the culture of the organisation. This may be particularly useful with regards to Ofgem's ambitions to embed innovation and engagement. The Groups can compensate for the weaknesses of the incentives in this area helping to get beyond the sales pitch. Collectively the Groups have a greater diversity of perspectives, which is healthy.	Harder for the Group to get beyond the sales pitch provided by the company. Ofgem recruits members to the Group and would need to ensure that it had a genuinely diverse set of perspectives e.g. geographically, experience, interests and knowledge (this has arguably not always been the case with other Ofgem recruited groups) else risk criticism that it is an Ofgem echo-chamber. May be better placed to look at whole systems issues but this would need to be reflected in the membership and with the scope to operate across the whole energy system - i.e. not just gas distribution for example.
Resourcing	Companies provide and fund membership, secretariat, training, and wider resources.	Ofgem funds membership, provides secretariat, support, and wider resources.
Reputational and advocacy role	Could have an outward facing communications role. E.g. responding to Ofgem or government consultations. Subject to commercial sensitivities Groups would be able to communicate their views externally to	Can drive improvements via comparative benchmarking but legal and political considerations linked to working within regulator may mean the Groups are more restricted in terms of what they

	any party. This could increase transparency and accountability. There are only a limited number of consumer voices that have the expertise to provide views on network issues. This could help to strengthen the customer/citizen voice in this important area.	externally communicate and when, having to work around Ofgem's timetabling.

Q.2 What role should Groups take with respect to scrutinising new investment proposals which are developed through the uncertainty mechanisms?

As noted in Q1, there's a useful role for the Groups to play with respect to scrutinising new regulatory proposals, particularly under uncertainty mechanisms e.g. heat policy reopeners and SIF innovation proposals. The CEG could challenge the optioneering undertaken by the company, the robustness of their evidence base including customer insight and willingness to pay, and clarity of proposals. This should improve the overall quality of proposals ahead of their submission to the regulator. We could provide feedback to Ofgem on our scrutiny activity, suggest areas that Ofgem may want to particularly focus on and provide views. As with the business plans, we do not think it our role to 'endorse' any proposals put forward by the company, as we are conscious that we have more limited access to information than Ofgem. But we could highlight if and where any proposals have particular stakeholder support/or not as the case may be, or what we see as the advantages and disadvantages of proposals based on the information that we have available to us.

Q3. What value would there be in asking Groups to publish a customer-centric annual report, reviewing the performance of the company on their business plan commitments?

There is real value in an annual report. This is because it:

- Strengthens the influence of the Groups within the company. If companies know the regulator and wider stakeholders will read the report it keeps them focused on engaging effectively with and listening to the Groups.
- Can provide useful feedback for regulators and wider stakeholders on how companies are doing. This includes progress on aspects outside of Ofgem or CitA's traditional monitoring frameworks such as on engagement, consumer vulnerability and affordability, responsible business. It could provide a more contextual/qualitative insight e.g. on company restructures, company culture, ambition levels.
- Helps to ensure transparency and accountability for the Group's activity. This is good practice governance, especially as Groups are funded by customers' money. Any report should include costs and impact/activity.
- While developing a report takes resource and time it needn't be onerous and Ofgem could allow flexibility in how this is done. The process of writing a report is useful and encourages good practice. E.g. it's an opportunity to take stock of activity and progress, and to review and improve approaches. It's a useful tool to engage the Board on. It also helps to drive change on an ongoing basis, not just for business plan submissions.
- Could strengthen the scrutiny of the delivery of vulnerability strategies over and above the ODI-Rs that have been proposed in the DD as well as the many other areas where Ofgem is relying on reputational incentives to deliver the customer benefit associated with the network's actions.

Customer-centric
Re a ‘customer centric report’. We’d welcome clarity on what Ofgem means by this.

- We agree that it is important that any report focuses on those issues that matter most to the networks’ customers and wider stakeholders.
- The sharing of an annual customer/stakeholder insight report (as outlined in Q1) would also help to ensure the Groups are focussed on issues that matter most to customers and be useful in identifying changing needs and priorities.
- Realistically any report is unlikely to be read by many end-consumers, but we do believe it needs to be accessible to as wide a range of stakeholders as possible.

Other considerations
- We’d recommend a consistent approach across the Groups in terms of the timing of publication between companies. This would help to maximise awareness and engagement with the report. e.g. stakeholders can expect it at a given time. There could be joint communications saying the CEGs/User Groups have published their reports, helping to raise awareness and build trust in the sector.
- Given the variation in Group activity and resourcing, it would be useful for Ofgem not to be overly prescriptive. However, the regulator may want to specify some common elements.
- We’d encourage Ofgem to consider if/how this might sit alongside or complement its own, the company’s or Citizens Advices’ monitoring and reporting frameworks.
- We would strongly encourage any annual report publication date to be after the companies’ annual reports are published to ensure the Groups had access to verified and up to date performance information otherwise the report risks rapidly being out of date/inaccurate/inconsistent with wider reporting.
- We recommend that Ofgem reflect upon the CEG/User Group reports and appendices/annexes submitted on the company business plans, and the Water Challenge Group annual reports (which all vary) and consider which elements it might find most useful.

Q4. What value would there be in providing for continuity of Groups (albeit with refresh to membership as necessary) in light of Ofgem commencing preparations for RIIO-3 by 2023?

- Network regulation is complex, and each company has its own history and challenges. The better the knowledge of the company, the more effective the Group can be in targeting its challenge and scrutiny where it really matters. We are less likely to be misled, more likely to know where scrutiny is really needed. It is important however to ensure the right balance between continuity of membership expertise and fresh perspectives and challenge within the membership, especially to maintain independence. Also, it’s essential that strong governance arrangements are in place to prevent capture. Continuity is not only more effective but more efficient - it helps to avoid us going over old ground and enables retention of institutional memory.

- As noted in Q1. an expectation of the regulator is that companies engage with customers and stakeholders not just for the business plan development but on a continuous basis. The company-only groups can play a key role in ensuring high quality *ongoing* engagement, and that views are listened to. Without this focus on engagement, there is a risk that progress made will be lost.

- The price review cycle is every five years, but given the pace of policy, social, environmental and economic change including the transition to net zero and with Covid-19, Ofgem acknowledges that new kinds of regulation will be needed, including 'more adaptive regulation' which enables more timely decisions. As noted in Q1, there is a useful role that the Groups can play in driving in-period company improvements, ensuring companies respond to changing needs, and in supporting Ofgem in its in-period decision making, including with regards to uncertainty mechanisms.

- In practice, under our current remit, the Groups should remain in place until Final Determination, and if applicable, continuity will be needed beyond any CMA challenge. In the water sector the Challenge Groups have been called upon by the CMA to give evidence so some degree of continuity is useful for at least that period. Beyond this, as noted in Q1, the CEGs/CEG and User Group Chairs could provide useful feedback to Ofgem on the impact of the RIIO-2 framework in practice and help to shape the development of its RIIO-3 framework (which will come round soon enough!). The Groups will no doubt have useful lessons learned from how the RIIO-2 process has worked in practice and the behaviours it has driven. This is arguably especially valuable given Ofgem's high turnover of staff and lack of institutional memory on some issues.

See also question 8 on the Stakeholder Engagement Incentive.

Data and digitalisation

See also p.8 point 11 of the cover letter to this response.

Q5. Will the combination of the two proposed Licence Obligations support the delivery of a digitalised energy system and maximise the value of data to consumers?

The CEG has encouraged Cadent to regard the move to an open data and a digitalised environment as an opportunity, rather than just a regulatory requirement, but we recognise that companies don't always see the opportunities, can be overly cautious and reluctant to open data, and cultural change is needed. We note that FES 2020 underlined the importance of open data and digitalisation for all scenarios for reaching net zero. We welcome therefore the proposed Licence Obligations.

Although the two Licence Obligations will ensure that a company's own data is made available, we are concerned that they could result in a tick-box or regulatory reporting approach to fulfilling 'open data' Obligations, rather than helping foster company-wide engagement and a sense of urgency around data-led business transformation. Ofgem raised similar concerns in its open letter on digitalisation, saying that EDTF recommendations were seen as an end, rather than digitalisation being an enabler for business and business model transformation.

To achieve the desired outcome, companies have to be in close and regular contact with data users and we have encouraged Cadent to widen its stakeholder engagement to respond to evolving needs and potential use cases. The CEG would therefore like to see the purpose of the two Licence Obligations amended so that it references not just "generating value for stakeholders" but "responding to the needs of stakeholders". Also, that, within the digitalisation strategy updates, they publish how they have engaged with external stakeholders, what the stakeholders have said about their data needs and how they are responding to these changing needs. This would be consistent with Ofgem's engagement aims.

The Digitalisation Strategy should also provide measurable outcomes that are in accord with the needs of customers and stakeholders. The Action Plan is an opportunity for a public-facing document that updates external stakeholders on the strategy and offers an evolving 'pipeline' of activities for stakeholders using network data. It could provide an opportunity to highlight new use cases and open data sets, performing a similar function as 'showcase' events in other activity areas such as fuel poverty.

We understand from Cadent that the risk involved in taking innovative digital-led approaches is difficult to justify internally because there is not always a direct read-through on payback, or because its payback is too slow for BAU requirements. We suggest that Ofgem consider using a mechanism such as the CVP (although we have questions over its current use), social return on investment or some form of 'digital scorecard' to help get such innovation over the line, within the 'public-facing' Action Plan, to help counterbalance this tendency to inertia.

Q6. Do you agree with our proposed frequency for publication of updates to the digitalisation strategy and the digitalisation action plan, respectively?

We support this timetable for the Digitalisation Strategy. Digital product development is often said to be an activity of weeks or months, in comparison to multi-year hardware development and implementation cycles. A bi-annual Strategy will allow for assessment and iteration of projects and planning for investment and disruption.

We think the timetable for the Action Plan depends on its aim. If it is intended to be a report to Ofgem, a yearly report as part of the annual regulatory report would be most efficient in managing the regulatory burden. However, if it is seen as a public-facing document that updates external stakeholders on the evolving strategy it would help prompt the wider transformation envisaged by Ofgem. In that case we think a six-monthly publication would help networks to internalise digital cycles and provide an up to date 'pipeline' for data users.

Q7. What kinds of data do you think should comply with the data best practice guidance to maximise benefits to consumers through better use of data?

We would not limit the types of data that should, eventually, comply with best practice, but we think speed of release is equally important.

Discussion of energy data is often focused on asset data and opening this is fundamental to digitalising the energy system. But equally important to a digitalised industry is the ability to connect with other diverse sources, whose link may not seem immediately likely (such as customer usage) or at a remove (such as potential feeds for biomethane). The ability to combine data sources is key to generating value in different ways for customer groups with different needs, as well as providing tools to transform the business and uncover unforeseen opportunities for innovators.

This open data landscape implies a large variety of sources and we recognise that a common structure is important. We also recognise that the industry is working toward a 'presumed open' approach to data and without a 'presumed compliant' approach, especially where it opens the possibility of combining different data formats, the value of making the data available will be limited. But the CEG has been mindful of EDTF's focus on releasing data as quickly as possible. Eventually it should meet best practice guidelines, but that should not be a reason to delay early release in a raw form with appropriate 'health warnings' for users. We have challenged Cadent to make sure that necessary work preparing data for release does not, in practice, slow down release or prejudge the likely uses.

We are also keen to see the sharing of real-time data and its use in operational management of the whole integrated energy system as soon as this can be achieved reliably and securely.

Stakeholder Engagement Incentive

Q8. Do you agree that the Groups could have an enduring role to work with the companies to monitor progress and ensure they deliver the commitments in their engagement strategies?

Yes, and in our report to Ofgem on Cadent's business plan identified this as a role for CEG for RIIO-2. The CEG's continuing oversight could have a supportive role in embedding a culture of ongoing and improving engagement. Cadent has made good progress over the course the price control process to date and we want to see that improvement continue.

In brief we think:

- The Company should be required to provide an annual insight report to the Groups, which documents at a high level the engagement undertaken and the key customer and stakeholder learning, and how the company is acting on this. This would support the Groups in their role of ensuring the companies are listening to their stakeholders on an ongoing basis. It could also be used by wider stakeholders, helping to track changing attitudes and inform wider policy making. Without this, we query if there would continue to be sufficient visibility of companies' engagement activities once the RIIO-1 SEI ends.
- Groups should report on progress made on the engagement strategy, including in an annual report to Ofgem which is also shared with wider stakeholders.
- Group members could observe a selection of company engagement activity to ensure that the delivery is high-quality in practice, not just on paper. Cadent CEG has a monitoring form for this purpose and has shared that with a number of CEGs.
- Members can support companies in improving the quality of research and engagement activity including scrutinising approaches to ensure follow good practice. Also, challenging them to ensure they are engaging with the right people, at the right time in the right way. This recognises that some network companies still do not have relevant in-house expertise in this area.
- Group chairs and a specialist from each CEG should meet to share learning and benchmark the network companies' engagement activities. The RIIO-2 Challenge Group noted a large variability in the standard of engagement. For companies that have gone the extra mile, this could provide them with recognition and encourage them to continue their good work. This exercise could also help improve the performance of weaker companies, sharing learning regarding good practice in a timely way rather than waiting for the next business planning cycle. This would also be useful as Groups had very different views as to what good quality engagement looked like.

Importantly, we think that Ofgem should reconsider some kind of **common-ODI for stakeholder engagement** (as opposed to customer engagement) given the increasing importance of partnership working and collaboration (see p. xx). Partnership working is especially important for net zero, responsible business, identifying and sharing innovation, delivery of consumer vulnerability initiatives, and whole-systems aspirations.

Deliver an Environmentally Sustainable Network

See also p.3 point 4 of our cover letter response.

Q9. Do you agree with our proposals to accept the proposals for an ODI-R for BCF and the other proposals as set out above as EAP commitments and to require progress on them to be reported as part of the AER?

We welcome Ofgem's proposal to create a reputational ODI for network business carbon footprints. This is an issue that is important to Cadent customers who expect them to deliver carbon reductions. The ODI-R will ensure information is available on their progress.

We note that Ofgem has not accepted Cadent's proposal to attach ODI-Rs to other commitments in the Environmental Action Plan - recycling and waste; embodied carbon; supply chain; and biodiversity and natural capital - but that instead these are areas Ofgem is requiring for inclusion in the Annual Environmental Report. As with BCF, these areas of environmental performance are important to Cadent customers.

We accept that Ofgem's approach will ensure network progress is regularly reported on and we welcome Ofgem's proposal to create a Licence Obligation on the networks to publish Environmental Action Plans (EAP) and an Annual Environmental Report that sets out their performance in a structured and comparable way. This will allow stakeholders to understand and challenge the networks more effectively so that environmental standards improve over time.

Ofgem has said that it aims for greater transparency in this area. Information provision is an essential step but not enough alone to ensure companies are challenged on their delivery and their ambition. If reliance is to be placed on reputational incentives then further thinking is needed on how to make such incentives as effective as possible. In our response to Q1 we set out how an enduring role for the CEG will help maintain pressure on the networks to deliver on their business plan commitments, including their EAPs. We believe this would be a useful role for all CEGs/User Groups. The Cadent CEG plans to keep the environmental performance of Cadent under review, using the EAP framework to test whether commitments are being delivered. As part of this, we will continue to review feedback from customers and stakeholders on what they want the company to deliver to ensure Cadent's ambition level continues to match what they want. . Furthermore, companies should be encouraged to not only publish this information on their websites but to identify interested stakeholders and proactively communicate it to them.

We note Ofgem's comments on the difficulty of comparing network performance across all these areas because the companies report on these in differing ways in their business plans. We therefore welcome Ofgem's drive towards more comparable reporting which will help stakeholders benchmark performance. Wider benchmarking is also needed to ensure targets are sufficiently stretching.

We note Ofgem's acceptance of NGET's proposal for a financial ODI relating to its environmental performance which both rewards and penalises the company for its performance in seven environmental areas compared to annual target improvement in each area has been approved by Ofgem. Ofgem says "*Subject to resolving the issues discussed in paragraphs 2.15 to 2.18 [various detailed points on the metrics], we consider that an ODI-F would ensure NGET has a financial interest, proportionate with its involvement and effort, in achieving or exceeding the RIIO-2 targets set out in its EAP*."

We question whether greater consistency of approach is needed across transmission and network distribution company business plans in relation to environmental performance and why reputational incentives are deemed sufficient for GDNs but not for transmission in these areas.

We have responded to Ofgem's proposals for the content of the EAP for the gas distribution networks in our response to GDQs 9-14.

Driving efficiency and managing uncertainty

See also p.2 point 1 of our response and p.4 point 4.

Q10. Do you agree with our proposed RPEs allowances? Please specifically consider our proposed cost structures, assessment of materiality, and choice of indices in your answer.

No comment.

Q11. Do you agree with our proposed ongoing efficiency challenge and its scope?

We welcome Ofgem's strong focus on cost efficiency and note the decision to push the company further in this area. In our report to the regulator we outlined how we had scrutinised the company's efficiency plans given that this is a critical element of the price control in delivering value for money for network customers. We also acknowledged that ultimately the regulator is best placed to give a view in this area given its greater access to information and ability to compare plans across different networks. It is reasonable to expect that customers do not want to pay more than is necessary for the outcomes they have expressed they want and need, despite willingness to pay findings.

We are aware that Cadent is challenging Ofgem in relation to a number of aspects of the efficiency modelling. In many of these cases, Cadent says it has identified potential errors in the data used by Ofgem or in the way the models have been applied. In other cases, the nature of the challenge relates to the reasonableness of judgements made by Ofgem. By their nature, these points are generally detailed and technical, and we are not in a position to provide a view. We do, however note that Cadent's evaluation of the combined impact of the issues it raises is highly material, and we would be concerned if modelling errors led to a situation in which customer outcomes were impacted. We therefore look forward to hearing the outcome of those discussions.

Q12. Do you agree with our proposed common approach for re-openers?

Re-openers and Uncertainty Mechanisms play a materially greater role in this price determination compared to previous periods. This has been well-signalled: Ofgem has been clear that it sees having a much larger part of the revenue allowances subject to uncertainty mechanisms with a relatively reduced level of base revenues as an appropriate response to both the substantial level of current policy uncertainty (particularly in relation to net zero and heat de-carbonisation) and to reduce the chance of companies gaining undeserved or "windfall" gains from outperformance at the expense of customers. The design of the network price controls therefore appears to be an important manifestation of Ofgem's desire for regulation to become more "adaptive" (regulation changes to suit a more rapidly changing policy context) and more "accurate" (customers are protected from unnecessary costs and risks as circumstances change). We recognise these concerns.

Given the more material role of UMs in price controls it therefore seems sensible to pay some attention to how such processes should work both in principle and in practice, and where possible to identify common approaches for which there is a clear rationale. We therefore support the idea of a common approach. Before turning to the specific details of the approach proposed however, we think that the wider implications of a more "adaptive" and "accurate" regime deserves some attention. We set out below four generic issues that Ofgem may wish to consider.

Stakeholder Engagement

The preparation of companies' business plans has been characterised by a substantial effort to engage customers and other stakeholders. We commented at length on this process in relation to Cadent in our December report, recognising both strengths and some weaknesses. We, together with the Customer Challenge Group, therefore provided a very substantial level of challenge and scrutiny which has improved the quality of submissions. The consequence of more reliance on re-openers is that what actually gets delivered for customers and the price at which it is delivered will depend not only on the Final Determination and companies' success in fulfilling their obligations under it, but also on a whole series of smaller but still material "mini-determinations" throughout the price control. Cadent has put forward plans for its stakeholder engagement throughout RIIO-2 and we welcome this focus. We are also in favour of CEGs having a continuing challenge role through RII0-2 (see Q1). We believe that the quality and robustness of engagement should in principle be equivalent to that provided over the business plan itself albeit reflecting the level of risk, materiality and importance to customers for each proposal. At present, however, Ofgem has not set out its expectations about customer and stakeholder engagement and the associated scrutiny of companies' proposals by CEGs and the CCG. This is particularly material for the UMs and other investment mechanisms relating to net zero and heat. We would welcome further clarity on this.

Practicalities and timeliness of decision-making

While Ofgem has sought to make as many as possible of its UMs "automatic" responses to changes in measurable variables, there are still a large number of UMs, including re-openers, which are going to require Ofgem to exercise its judgement and make decisions. These will need to be subject to consultation and scrutiny. Ofgem has identified the use of specific "windows" for companies to submit their UM proposals, which seems to be a sensible attempt to manage resources against an uncertain workload. However, there are very many different windows, and a variety of different mechanisms (particularly for net zero - which we explore in more detail in Q21). It is not very clear how Ofgem will organise itself to be ready to fulfil its important role in making the UMs work - a role which seems very substantially greater than at present. We believe all stakeholders would welcome more clarity about this in order to gain assurance that the assessment and decision-making processes will be exercised robustly and fairly and to be confident about the timing of decisions, given that each decision and its timing will have a material impact. We would also highlight the difficulty of keeping track throughout the price control period of the additional costs being added to customer bills through these mechanisms and the potential for decisions required later in the price control period being less likely to be allowed against a background of customer bills that have already seen increases as a result of earlier decisions.

Incentive effects

We recognise Ofgem's desire to adapt its regulatory approach to uncertainty and to protect customers from companies making undue gains. However, a potential consequence of this is to alter desirable incentive properties of the regulatory framework, which are intended to encourage companies to discover and implement new, better and more efficient ways of delivering outcomes that customers want and society needs. Providing investors (and through them managers) of companies with strong incentives has been a cornerstone of UK economic regulation and it has worked well. Such incentives have typically worked by setting a target and letting companies try to beat it. Of course, incentive regulation remains central to the RIIO-2 price controls, albeit perhaps they are lower-powered (for example, totex sharing rates are lower). However, the operation of uncertainty mechanisms could also result in incentives for management not to pursue desirable outcomes. Examples of how this might come about include management being reluctant to propose worthwhile investment because of a costly or burdensome process, or for fear that too many of the benefits of such proposals will be captured for customers in the form of lower bills or stringent conditions on approval. Re-openers in particular, because they require a regulatory judgement, may be particularly prone to this. On the other hand, automatic mechanisms tend to remove the incentive to manage the variable on which the UM is based. We believe that in each individual case Ofgem should be clear about how it has thought through the potential incentive impacts and also explain specifically and in more detail how it sees the overall package of UMs affecting incentives on investors and managers more generally. We accept that much of this thinking has been spelt out in prior consultation documents but because there remains quite considerable uncertainty about how the UMs will work we believe Ofgem should include an explanation of its thinking about the incentive properties of each UM once details are finalised. Further we think that the design of some of the UMs may need to be reconsidered in the light of their apparent incentive properties. An example of this is the processes for the adjustment of funding and penalties relating to NARMS, which on the face of it appear to monitor the delivery of outputs at a relatively low level. While we understand the desire to prevent windfall gains, it seems possible that these rules will distract or disincentivise companies from seeking genuine efficiencies to deliver lower customer risk at less cost. (We are not able to comment on the details of the proposed mechanism).

We comment on other specific instances where the design of the UMs may need to be reconsidered in our response to later questions, as follows:

- physical security Core Q19
- diversions - GDQ 44
- reinforcements - GDQ 50,51
- Tier 2 iron mains / PAST GDQ 34

Bill impacts

As is appropriate, it is clear that the impact of the price controls on customers via their level of bills is a key concern and outcome of the price determination. Ofgem has been explicit in seeing constraining bill rises as far as possible as a principal objective and this is one reason why UMs play such a material role - to prevent customers bearing unnecessary costs for investment which cannot be adequately planned or estimated at this point. A consequence of this approach is that prices will likely increase through the RIIO-2 period following the initial £20 headline bill reduction. Ofgem has been clear that this is what it expects to happen and has indicated that most of that reduction may well be reversed by 2025. But of course the price path is uncertain and it is important that customers are brought along by both companies and Ofgem as greater clarity about future price increases emerges. We therefore encourage transparency and good, timely communication as the period progresses. It is likely that a high proportion of future price increases will be driven by future net zero related investment. Who pays for the UK's net zero policy ambitions is a substantial unresolved policy issue so understandably difficult to predict. However we note a tension between Ofgem's ambition to constrain prices on the one hand and it signalling (for example in its August net zero webinar) that the scale of investment that might be approved under net zero re-openers may be essentially unlimited. We would welcome clarity on (i) whether there are limits on the scale of investment that may be funded and if so how they are set, (ii) how Ofgem is going to consider the price impact on customers in making its UM decisions and (iii) on how it will look to ensure that customers know about future price rises.

Comments on common approach for re-openers

We support the principle of having a common approach to the re-openers, which will help to provide clarity and consistency of process. In the same spirit, we would support the proposal for additional detail and guidance to be provided by Ofgem on the application requirements, as proposed. As we note above there is considerable, and as yet unspecified, detail associated with how the UM regime will operate in practice. In this section we comment on the specific aspects of the common approach. In each case we provide our views as a CEG on the proposal and where relevant refer to Cadent's own position on it.

Materiality

The common approach sets materiality levels for considering a UM both at an individual level and when there is aggregation of impacts. However, for some UMs, this principle is disapplied for specific reasons such that there is no materiality criterion.

As a general principle we support the idea of a materiality threshold which seeks to avoid overly burdensome and costly regulation and which places some of the risk of uncertainty on the company. This is in line with regulatory precedent and, assuming that the assumptions about the cost of capital are calibrated consistently, is theoretically justifiable. It is beyond the scope of our role to comment whether that calibration is consistent: we merely comment that it should be.

Cadent has argued in its response that the materiality level applied in RIIO-2 is substantially greater than applied in RIIO-1 (a higher percentage of totex combined with a longer price control) and that therefore, all else equal, it is exposed to a much higher risk of unfunded costs. It has also pointed out some specific impacts in the case of individual UMs. It also highlights what it sees as an inconsistency between the level of the materiality thresholds and the level at which other aspects of the price control are being operated, specifically that many PCDs are for substantially smaller amounts.

We agree that on the face of it the level of materiality threshold appears to be higher than at RIIO-1. However, we do not think this means necessarily that the threshold has been set at the wrong level. While we hear Cadent's concerns we are not in a position to validate them and have not yet had full visibility of their written response to the DD. What we have done is to challenge Cadent to explain and justify why there should be a lower threshold.

In certain cases we do have some sympathy with Cadent's arguments on materiality thresholds for specific UMs, particularly where it has limited meaningful control, such as on physical security, which we highlight in our answers to specific questions below.

We are less convinced that it is valid to compare the PCD arrangements with materiality thresholds as they are different types of mechanisms with differing demands on company and regulator. We do have some concerns that delivery of some PCDs may be subject to regulatory scrutiny at too low a level (i.e. they focus on detailed inputs rather than on outcomes). For example, see our response to GDQ 22 on the capital projects delivery PCD. However, we don’t find the comparison a compelling reason to reduce materiality thresholds for UMs.

Aggregation

Ofgem contemplates the possibility of aggregating impacts to form a single UM claim. It provides some protection from companies aggregating willy-nilly simply to meet the threshold by imposing a limit on materiality of individual items, imposing a higher overall threshold and excluding UM items where the materiality qualification has been removed. These measures seem sensible and we look forward to Ofgem clarifying the details. For example, it would be good to clarify the types of additional expenditure that can be aggregated, the thresholds that will apply and the timescales over which aggregation can take place, including for example whether aggregation could extend to spend during RIIO-1 (as Cadent has suggested in relation to smart metering costs), or even through to RIIO-3. It will be important to finalise these parameters in such a way that does not deter licensees from undertaking activities that are in the interest of customers, whilst avoiding perverse incentives or the creation of an overly burdensome regulatory framework.

Submission windows

The idea of short windows for UM submissions is sensible and seems likely to reduce uncertainty about the timing of submissions in principle and thus presumably enable better management of regulatory workload. It would be helpful if this tighter timing on submission might be reflected in more clarity about the time expected to be taken to reach decisions so that all stakeholders can understand the full timeline for any particular UM. We note that the number and varied timing of the windows for the various UMs, while justified in each case, does create a slightly complicated picture. If there is some way of clarifying or simplifying this for stakeholders it would be useful. Furthermore, it is difficult to say whether the timing of the windows identified is likely to remain appropriate given the potential for the timing of policy determination and implementation to change. It may therefore be sensible to build in some flexibility in timing - in other words a process by which company submissions may be made outside the defined windows subject to meeting relevant criteria.

Ofgem triggered UMs

Ofgem retains the right to trigger any of the UMs itself subject to the same materiality thresholds. In such cases it reserves the right to trigger at any time and also specifies a 28-day consultation period before making its decision. It seems to us that the ability to trigger any time combined with what could in some cases be seen as a relatively short consultation period (if there are particularly complex issues to consider) may be a challenge for companies and, particularly, for other stakeholders to deal with. The ability and preparedness of all stakeholders to respond comprehensively to such proposals is important. We would therefore encourage Ofgem to commit to a no-surprises approach by being as open as possible about its future intentions and plans. There are specific considerations in relation to the net zero re-opener which only Ofgem can trigger. We deal with these in our responses to Core Document Questions 21 to 30.

Zero-base UMs

In general, UMs serve to make an adjustment to a base level of revenue included in the price control where there is uncertainty about some factor which is not within the control of the company. However, in some cases **all** of a company's proposed investment has been removed from base and covered by a UM. Cadent has highlighted its concerns about two of these items: IT/Telecoms capex and London Medium Pressure. We comment on these in more detail in our responses to relevant questions. However, as a general point it does seem odd that all of the expenditure has been removed when in fact it is fairly clear that some expenditure will be undertaken. We conclude that excluding the totality of spend within a UM is driven less by uncertainty about the relevant exogenous factors and more by the fact that spending plans haven't been well enough justified, when they quite clearly could have been. We would not dispute this but consider that the appropriate response would be to improve the justification such that a base revenue allowance can be set at Final Determination. We have therefore challenged Cadent to more robustly justify its future spending plans in its response to the Draft Determination. We are also concerned that, if no base cost is allowed, then programmes of work could suffer delays and disruption pending approval of UMs, which could negatively impact customers.

Financeability

The potential impact on financeability of a greater number and scale of UMs has not been specifically addressed in the Draft Determination. However, Cadent has highlighted the potential impact in its response. We have not looked at financeability in any detail and so while we understand that a delay between incurring cost and recovering it in bills may worsen financeability in principal, whether it has a material impact will depend on the overall level of headroom provided by the price control. We have encouraged Cadent to quantify its view of the potential impact that can be attributed to the UM package.

Q13. Do you agree with our proposals on a materiality threshold, a financial incentive, a 'foreseeable' criterion, and who should trigger and make the application?

Given the main purpose of the Co-ordinated Adjustment Mechanism is to facilitate and enable collaborative and whole system solutions we believe that there should be as few barriers as possible for its use. Therefore, we agree with Ofgem's proposal not to apply a materiality threshold or a foreseeability criterion.

It seems reasonable for network companies only to be allowed to trigger the CAM and we agree with Ofgem's proposal for a single licensee applicant supported by statement of agreement between the licensee originally assigned the responsibility/revenues and the licensee(s) now better placed to deliver it with greater benefit to consumers. However, taking a whole systems perspective, it would be helpful if the CAM could allow for redistribution of responsibility/revenues amongst multiple GDNs (or DNOs and others) rather than a simple reallocation, thus facilitating collaborative activities such as those involving multiple locations, energy vectors and circumstances.

In principle, there should be strong commercial and strategic drivers on networks to seek out the kind of opportunities enabled by the CAM. Ofgem has been very clear that it expects companies to collaborate. We therefore do not believe it is reasonable to expect customers to pay to encourage such collaboration. Hence, we agree that a financial incentive should be unnecessary and that there is no need or benefit in Ofgem becoming involved in inter-company arrangements for compensatory value beyond its inclusion in the cost benefit analysis.

However, we are conscious that there may be actual or perceived cultural resistance to collaboration which may result in the CAM being underused. We therefore suggest that Ofgem keeps its usage under review and reserves the right to propose amendments to incentivise its use.

Q14. Do you consider that two application windows, or annual application windows, are more appropriate, and should these be in January or May?

We favour reducing the barriers to application as far as possible such that previously unforeseen needs, once identified, can be acted on as soon as possible to deliver the greatest benefits to consumers. Ideally this would allow for an 'always open' window. If such an approach is deemed to be unworkable then we would argue for maximising the number and frequency of windows. Having only two windows within the price control period could unhelpfully limit the opportunity for reassignment. Whilst we can see justification for this being in May, we have no strong views on selecting this month over January.

Q15. Do you consider that the RIIO-1 electricity distribution licences should be amended to include the CAM, or wait until in 2023 at the start of their next price control?

We think that it is important to remove as many barriers as possible to whole system collaboration because utilities are not yet fully culturally disposed to embrace it. The mismatch of timing between the ED and other price controls seems particularly problematic in this regard and there is a risk of delay to important collaborative initiatives. We are therefore in favour of including electricity distribution licensees in the CAM at the earliest opportunity to enable the mechanism to be operational in a true whole energy systems environment.

Q16. Do you agree with our proposed re-opener windows for cyber resilience OT and IT, and our proposal to require all licensees to provide an updated Cyber Resilience OT and IT Plan at the beginning of RIIO-2?

We support this. Plans submitted for December 2019 will be nearly two years old by the start of RIIO-2 and there have been changes in the threat landscape and the UK response to it since then (e.g. the Government's decisions on Huawei equipment).

Q17. What are your views on including the delivery of outputs such as: CAF outcome improvement; risk reduction; and cyber maturity improvement, along with projects-specific outputs?

It is desirable to evaluate success at enhancing cyber security using measures which capture all aspects of resilience and readiness and so we welcome the use of measures like these which go beyond an assessment of low-level project outputs. However, as they all involve some degree of qualitative judgement it is important that the measures and assessments are (and are seen to be) robust and defensible. We believe Ofgem should explicitly consider this when establishing its outputs delivery framework. For example, it may wish to consider what sort of assurance it requires in relation to any assessment.

Q18. Do you agree with our proposal for the Non-operational IT and Telecoms capex re-opener?

Given the exclusion of expenditure on non-operational IT and telecoms from base allowances, it is essential that such a re-opener is provided. The exclusion of the re-opener from the materiality threshold is reasonable. We agree there needs to be an early window for triggering the re-opener. However, we are sceptical about the decision to exclude all Cadent's capex from its base allowances and we do not fully understand the rationale for this. We note that the decision is based on an assessment by Atkins on which we are unable to comment in detail but the outcome that the vast majority of proposed spend is excluded seems difficult to justify. In our view, it is inevitable given the importance of IT in supporting change across the industry that some level of spend will be needed and we would have thought that it would be possible to include a greater amount in base allowances which could subsequently be adjusted.   If there is concern about the quality of justification for the spend then this could be reflected in setting the base allowance at a moderate level. There is an opportunity for Cadent to improve justification for spend ahead of the Final Determination and would encourage Ofgem to allow for this.

Cadent has highlighted what it sees as inconsistencies in assessment of its spend proposals with other GDNs. We cannot comment on this in detail but would expect the points raised to be examined.

Q19. Do you agree with our approach to using a re-opener mechanism for changes to government physical security policy?

The physical security programme is a relatively small programme (in the case of Cadent, at least, where it is a little over £20m). Moreover, it is largely mandated by government and subject to a well-understood and relatively detailed process for determining requirements. Cadent therefore has rather limited choice about making the required investments. Because of this, we wonder whether using a pass-through mechanism may be more appropriate and less burdensome overall than a re-opener. If a re-opener is retained, we think that the application of the materiality threshold might be reconsidered. The regulatory constraints and requirements surrounding the physical security programme seem akin to those applying to cyber security, for which the materiality threshold has been disapplied.

Q20. Do you agree with our approach regarding legislation, policy and standards?

We support Ofgem's wish to specify the likely sources of policy/ standards/ legislative change more closely than the networks have yet done. We would expect networks to reasonably manage many of these risks as part of regular business operations and we do not believe it would be fair to pass all risk to customers. However, we accept that some changes under this heading may be more significant, in which case use of a UM may be justified. We think that any new UM should only capture specific defined uncertainties which are demonstrably beyond management's control rather than allowing for any sort of "catch-all".

We suggest that Ofgem considers the scope for including new legislative or policy requirements relating to affordability in any eventual UM. Given current uncertainty about economic conditions following COVID 19, networks may be required to do more to tackle fuel poverty, for example.

Net zero and innovation

Q21. Do you agree with our overall approach to meeting net zero at lowest cost to consumers? Specifically, do you agree with our approach to fund known and justified net zero investment needs in the baseline, and to use uncertainty mechanisms to provide funding in-period for net zero investment when the need becomes clearer?

We support Ofgem's approach to fund known and justified net zero investment needs in the baseline and to use uncertainty mechanisms such as re-openers for in-period investment. We also support the use of challenge-based funding for specific projects through the Strategic Innovation Fund. However, while we support the approach in principle, we highlight below areas where we think further clarity is needed and where improvements could be made in the proposed approach.

We recognise there are many critical uncertainties about the actions needed in the RIIO-2 period to begin the transition to net zero. These include: the future role of fossil gas in particular in relation to heating; the future role of alternative gases to replace fossil gas or to supplement a switch to electricity-based heating; and the needs of industrial users for alternatives to electrification, in particular a switch to hydrogen fuel linked to carbon capture facilities. We welcome the publication of the updated Future Energy Scenarios 2020 which illustrates the urgency needed in the RIIO-2 period to make decisions on the trialling of new technologies, including for hydrogen deployment. Ofgem comments in paras 8.6 - 8.9 on the need for anticipatory investment and for research and trials. We agree that this is important in order to ensure that the long-term costs of net zero to customers (including future customers) are kept to a minimum, and we note that the need for caution in making large investment decisions in an uncertain climate has to be balanced against the (often less visible) cost of delay.

We welcome creation of the Net Zero Advisory Group, and publication of its terms of reference. Its creation is an essential first step, and we believe it will be a positive step to bring together governments, the regulator and other bodies to create a clearer route map for net zero. We would urge Ofgem to ensure that this group also involves the Ministry for Housing, Communities and Local Government given the importance of heat for housing and a growing acceptance that different net zero energy system solutions may be appropriate in different parts of the UK. We also note that local government bodies are increasingly active in developing their own plans for the energy system transition, with the networks themselves engaging closely with the development of Local Area Energy Plans. These too need to be taken into account.

We accept the need for an agreed and coordinated approach to the energy system transition, including the use of hydrogen. But we believe that Ofgem needs to move with great urgency to put in place the mechanisms for demonstration projects to be funded and we are concerned that the process - in particular both the need to engage with stakeholders over cost-sharing (see Q48) and requirements for competition (see Q32 and 33) have the potential to introduce significant delay. We would like assurance that NZAG will be in full operation in time to give strategic direction to the NZIB in a timetable that allows NZIB to launch SIF challenges early in 2021. Timely implementation is of particular concern and the CEG will continue to challenge Cadent to develop well-evidenced proposals and establish stable consortia to ensure SIF applications are of high quality and readiness.

We also note that Ofgem needs to recognise the long-term costs of failure to invest as well as investment itself. While "least regrets" is often cited as a model for decision making under uncertainty it is important that this looks at the costs and risks in the round. It is relatively easy to quantify the potential stranding risks if an investment turns out not to be needed but it is not clear that thought is always given to the risks of delay. If the network capacity is not available that may hinder the ability to meet net zero. If the need becomes more urgent then the costs of delivering against a compressed timetable could be higher.

We would stress the need for early clarity from Ofgem of the likely scale of expected net zero investment under the mechanisms it is creating, both in order to give investors an indication of the likelihood their investments will be fundable, and also to inform the necessary customer engagement (see Q22).

Q22. Do you think the package of cross sector and sector-specific UMs provides the appropriate balance to ensure there is sufficient flexibility and coverage to facilitate the potential need for additional net zero funding during RIIO-2?

In order for this 'package' to be fit for purpose it needs to provide sufficient incentive for investors to fund developments in a timely and efficient way; be easy for GDNs to understand and operationalise; reflect customer and stakeholder needs and changing priorities; and ensure costs are managed in the most effective and value for money way.

In our response to Q12 above, we discussed the challenges relating to the use of more adaptive regulation. This included: the need for stakeholder engagement; the need for clear routes for decision-making and timely decisions; consideration of the incentive effects of different types of uncertainty mechanism; and the need to have regard to the bill impacts of funding decisions. All of the points we made are of particular importance in relation to funding decisions relating to net zero.

The long-term programme of work associated with transition to net zero will be very costly. We noted in our Assurance Report that Cadent customers were not fully aware of this and that limited engagement had taken place because the future pathway to change was so uncertain. A much higher level of engagement with those who will pay the bills needs to take place by GDNs individually and collectively, and by government and regulators. As the net zero work is clearly identifiable and separate from ongoing business activity with a distinct scope and ambition it should be possible to carry out dedicated engagement on this. We do not yet know how Cadent, GDNs, Ofgem and BEIS currently plan to engage with stakeholders, how this engagement will be funded and whether it can be accomplished without delaying the programme (see GDQ47 below). We would welcome information from Ofgem on how it sees this process of engagement working in order to help customers understand and accept the scale of investment needed, and to ensure that customers understand the bill impacts of the decisions being made within the RIIO-2 period.

Taken together, the different UMs for the gas networks and the SIF (plus the arrangements for assessing competition) present a rather complex package of measures, including the two new bodies providing direction mentioned above (NZAG and NZIB). Clarity is needed as a matter of urgency regarding how this complex package will work in practice. It is not clear how major directions of travel will emerge or how the mechanisms will be aligned and be additive in building the knowledge base from which key choices and the decisions on issues such as domestic heating emerge. But, if the parties proposing UMs are not confident about the process and its strategic goal, there is risk of potentially useful initiatives not being put forward, speculative submissions being rejected at significant cost, and proposals being rejected because they do not meet a regulatory standard which is unclear. We would therefore welcome very early progress by Ofgem and we believe there is an urgent need for Ofgem to clarify the way in which it will manage the mechanisms, specifically:

- The roles and responsibilities of different bodies in delivering these mechanisms, including the body developing the hydrogen road map which is discussed in the Gas Distribution document;
- The timing of the decision-making processes;
- The steps of the process including application, consultation, decision and appeal stages;
- Evaluation criteria;
- How the assessment process for the role of competition in projects will interact with the net zero mechanisms;
- How new opportunities will be evaluated and costed;
- The level of funding likely to be available.

Further comments on the specific measures proposed are in our responses to Q23 and Q24 and to GDQs 46-48.

Q23. Do you have any views on our proposed approach to a net zero reopener?

We support the creation of a network-wide net zero reopener with the wider grounds for use set out in para 8.22 of the Core Document. The uncertainties relating to policy, technology, and economic demand are sufficient to require this broad approach.

In paras 8.24-8.32 Ofgem has set out the proposed process for managing the reopener. We agree that a careful process is needed to ensure that new investments are subject to proper review before being approved and the cost being passed to customers. But, as discussed above, we encourage Ofgem to set out an indicative timeline for how this process might work in practice, in particular its interaction with other mechanisms set up to deliver the same goal.

We can see potential upsides and downsides to allowing the networks themselves to trigger the reopener in order to respond quickly to developments. On balance we agree that Ofgem should be the sole party to trigger the reopener, based on close engagement with the networks who will draw issues to Ofgem's attention that are relevant.

We see a need for the regulator and the networks to work much more cooperatively than has been the case to map out the investment route and to put in place the regulatory arrangements to support it. This means both the regulator and the networks need to put aside a purely regulatory mindset to work on collective strategic goals.

We welcome the principle that the mechanism should only be used in circumstances where it will lead to consumer benefit although the time horizon over which this benefit would accrue may be further into the future than with other topic areas. As discussed in our response to Q12 and Q22, stakeholder engagement is an essential step to get buy-in to these very significant investment decisions. Ofgem says it is well-placed to take 'stakeholder views into consideration' In practice, Ofgem has not always engaged well and has often failed to get views from a wide range of consumer and non-industry organisations impacted by decisions. We encourage the regulator therefore to map likely interested and impacted parties; to proactively reach out to organisations and individuals to explain the significance of decisions, and to tailor engagement to enable them to understand and input into decisions in a timely way. This will be important for representativeness and therefore legitimacy of decisions.

Q24. Do you agree with our proposals for the RIIO-2 Strategic Innovation Fund?

Ofgem has set out ambitious changes to previous practice in its plans for the SIF and we welcome the more dynamic and broader based approach it plans to adopt, particularly:

- The principle that SIF projects must deliver net benefits for network consumers, as the funding for these will ultimately come from consumer bills. We query what mechanisms will be used to calculate this. We encourage Ofgem to revisit social return on investment models to ensure wider citizen/public interest benefit is captured, and that both monetised and non-monetised benefits to the whole system are taken into account in making any assessment. The nature of innovation means that important potential benefits may not be possible to be quantified so some flexibility may need to be required.
- The commitment for the SIF to be operational in 2021, and the creation of a third party to manage the SIF. We encourage Ofgem to publish a road map as soon as possible on how it will deliver this alongside further detail on how the fund is expected to operate efficiently in practice.
- An Innovation Challenge setting approach. As a means to funding innovation projects it is critically dependent on the up-front creation of Challenges that attract and reward (by funding) projects that advance technology and knowledge to make maximum impact. It is therefore vital that stakeholders are fully engaged in a process to shape challenges before launch and that the assessment process is expertly staffed and resourced. Flexibility to set Innovation Challenges as they arise, as proposed in 8.51, is also welcome, as is the joint networks approach as it promotes whole-system thinking.
- The focus on consortia and project partnership bids. This encourages a healthy diversity of perspectives, including consumer and community voices within what can otherwise be technical projects. Ofgem may want to encourage a focus on the latter to ensure opportunities for consumers are not missed. This is a lesson learned from previous innovation projects.
- The statement that the funding for the SIF can be increased if needed and the principle of the company funding part of the innovation. Cadent has suggested that distribution costs for one project alone - Hynet - are more than £200m (as part of a £1bn project) so flexibility on funding is welcome.
- Strong focus on a collaborative approach and greater coordination, including of innovation funding.

- A third party managing the SIF, especially given the flexibility this enables and the potential for alignment with other funding programmes.

Our concerns about the SIF are:

- Ofgem's statements focused it on challenges at a relatively early stage and at lower investment levels. Many projects regarding hydrogen are larger and more mature - closer to the 'strategic wider works' phase referred to in electricity transmission - which has implications for the direct project costs, scale of investment at risk, the risk inherent in delay, steps to the next phase (e.g. readiness for competition). We believe it would give clarity to investors and networks if Ofgem could set out how it will manage the package as intended to meet the needs of both mature large projects and those at an earlier stage. The package allows for flexibility and early stage innovation. But it is not clear how it sets the stage for the subsequent steps (TRL4 upwards), decisions on some of which are of immediate concern for networks.
- Ofgem has rejected the bespoke UMs proposed by Cadent on HyNet North West project and on hydrogen blending roll-out. Cadent plans to use the SIF to fund projects which involve both large scale field trials (HyDeploy) and those whose 'large, separable' nature could make them candidates for competition. We would like more clarity on how SIF processes link to evaluation and decisions on late stage competition. The assumption that the LOTI UM can be transposed from the electricity transmission sector has not been confirmed and we have concerns over the time required for evaluation (see Q32 and Q33).

Q25. Do you have any comments on the additional issues that we seek to consider over the coming year ahead of introducing the Strategic Innovation Fund?

We support further consultation on the list of areas outlined. In addition, we suggest Ofgem consults on:

- How best to measure net consumer benefit e.g. SROI or other models.
- Whether there should be any minimum assessment criteria for bids to reinforce the above e.g. we think that proposals should include an engagement/communications strategy for any consumer facing aspects to ensure opportunities to capture consumer insight including behavioural response are not missed; also some kind of distributional impact assessment. As Ofgem states in Para 8.86, the "impact of energy system transition on vulnerable consumers needs to be considered through the development of innovative network solutions to ensure they are not left behind or adversely affected." This should apply equally to SIF funding as well as NIA projects, and focus not just on vulnerable consumers, but potential winners and losers from any approach including regional, community and rural/urban differences.
- How best to capture learning through common monitoring and reporting frameworks and disseminate findings - to ensure accountability for funding and that lessons are learned from previous innovation funds. This has not always been done well.
- What kinds of 'voices' should be involved in the expert assessment panel to ensure appropriate expertise, skills and a diversity of perspectives. This is important to avoid 'group think' and for legitimacy.
- If there are any lessons learned from other innovation projects/programmes which have not been considered in the development of the SIF.

Q26. Do you agree with our approach to benchmarking RIIO-2 NIA requests against RIIO-1 NIA funding?

No comment.

Q27. Do you agree with our proposal that all companies' NIA funding should be conditional on the introduction of an improved reporting framework?

Yes, assuming this provides an incentive for companies to deliver a more robust reporting framework in time for the start of RIIO-2.

Q28. What are your thoughts on our proposals to strengthen the RIIO-2 NIA framework?

The approach appears to build on lessons learned including ending the peaks and troughs approach to innovation, improving consistency and efficiency of reporting, and enabling more effective sharing of learning. This is positive.

However, we do not support the use of network peer review for NIA projects as this could lead to the perception of reciprocal support and have unintended consequences.

As above, we query how Ofgem proposes to measure 'net consumer benefit'. We'd encourage an approach that enables both monetised and non-monetised benefits to be captured; enables flexibility to consider non-quantifiable benefits; considers wider public interest as well as 'whole-system' benefits and encourage Ofgem to revisit social return on investment approaches.

In addition, while we welcome the intention of the proposal to require companies to conduct an impact assessment to assess the expected effects of the innovative solution on vulnerable consumers, this needs to be further developed. As Ofgem's Consumer Vulnerability Strategy highlights any consumer can become vulnerable. Consumers are by Ofgem's own definition considered vulnerable if they are more likely to suffer detriment than an average consumer in a given situation, or the impact of that detriment will be more severe. The approach proposed in the consultation implies vulnerable customers are a set of pre-defined customers. This is an out of date approach that is not in line with Ofgem's own CVS. Companies should be required to conduct a 'distributional impact assessment' that considers both the winners and the likely losers of any innovation and in the case of the latter how this might be mitigated, if appropriate. This should consider the impact on different customer segments including those with recognised 'vulnerability risk factors', but also different communities including rural and urban, low income/high income.

We are unclear what Ofgem's expectations are on what percentage of the NIA funding will be spent on vulnerability projects and what on whole systems approaches, nor what it will do if there is a strong bias one way or the other, leading to less focus in one or other of the areas.

Q29. Do you have any additional suggestions for quality assurance measures that could be introduced to ensure the robustness of RIIO-2 NIA projects?

We agree with concerns about the robustness of research undertaken using NIA funding.

As noted above, we do not support the use of peer review for NIA projects as this could lead to the perception of reciprocal support and have unintended consequences.

We would support ongoing monitoring of projects through an independent agency using specialist monitoring officers able to review the technical content, progress against plan, and also the outputs and outcomes, ensuring high quality reporting under the new framework. Such an approach has been developed and refined over many years by Innovate UK (now part of UKRI) and may prove a suitable model.

There could also be a role for the CEG/User Group in providing an independent view on parts of any project e.g. consumer engagement, distributional impact assessments, assessment and reporting of benefits.

Q30. Do you agree with our proposals to allow network companies and the ESO to carry over any unspent NIA funds from the final year of RIIO-1 into the first year of RIIO-2?

Yes, this should improve the management of innovation generally, and provide appropriate flexibility given the challenges of Covid-19.

Q31. Do you agree with our proposal that all work relating to data as part of innovation projects funded via the NIA and SIF will be expected to follow Data Best Practice?

We agree that ultimately data should follow best practice, but that should not delay publication of early data with 'health warnings' to users. Also, following a policy of early release, data once open should be immediately available to others, (ie before project completion). We think this requirement could be broader to cover 'data arising' that is not an outcome of the project but used in its course.

Q32. Do you agree with our proposed position on late competition?

We consider that increasing the level of competition could bring substantial benefits to consumers and so we support exploration of extension of competition where it is likely to realise such benefits. As a consequence, we continue to challenge Cadent to consider alternative models of delivery which maximise the benefit of competition.

We therefore support the objectives of the proposals to consider competitive models for delivery of significant projects which come forward during RIIO-2.

However, we have some concerns about what is proposed in the Draft Determination: it is not always clear how the measures will work and there seems to be potential for substantial delay in progressing important initiatives. We explore these below.

The Draft Determination contains a helpful flowchart which sets out the process for making decisions about late competition projects. Ofgem states that it will assess each project eligible for consideration under uncertainty mechanisms in RIIO-2 against the criteria for competition at the same time as it assesses whether the project is needed and the suitability of the proposed design. It refers to the LOTI UM process as the means by which it will undertake this assessment. While this approach may be appropriate, more clarity would be welcome. For example, it is not clear at which of the three approval stages the competition decision would be applied. Nor is it clear how this process would interact with other UM processes such as the use of the net zero re-opener.

We are also concerned about the timescales defined in the LOTI process: Ofgem's approval across all of the three stages could take up to 2.5 years. As this would exclude the time allotted to companies, this suggests the potential for a very lengthy process and we see a risk of this causing substantial delay in progressing important projects, particularly those relating to the delivery of net zero and heat decarbonisation. We welcome that the Draft Determination highlights the need to avoid undue delay to critical investment, but we are unclear whether the processes suggested are in line with that ambition.

While the process as described refers to UMs, there is no reference to projects which might come forward under the Strategic Investment Fund. It is therefore not clear how competition assessment will factor into the operation of the SIF.

Furthermore it seems very probable that the projects coming forward under the SIF or UM mechanisms may have a high degree of interdependence with other projects which are being progressed either by other regulated networks or by other parties and we believe further thought is needed about how the competition assessment mechanism can take account of such interdependencies.

We agree it is important that progress on design and specification can proceed in such a way that subsequent competitive procurement is not compromised (e.g. by having companies disproportionally involved at early design/concept stages that are then not able to respond to the competition, potentially excluding those most capable of delivering). We also agree that initial work on design or other matters should not compromise a decision on a UM or an assessment for late stage competition.

However, our experience of similar situations is that they can result in convoluted processes and wasted effort. It tends to work better for large scale straightforward projects that are relatively easy to plan and cost. Related to this restriction, the Draft Determination refers to the potential need for companies to undertake work ahead of approval and contemplates “proposals for funding design and pre-construction work”. However, there is not much detail about how such proposals should come forward and how they might be treated. There do not appear to be any details of such proposals and we recommend that Ofgem explores these issues in more detail and involves companies in coming up with workable arrangements that would apply to various foreseeable situations. A lack of clarity could have the effect of slowing progress on important initiatives.

In summary, therefore Ofgem should work to clarify:

- how the competition assessment process will operate in a co-ordinated way with the various other processes in the DD for progressing UMs and the SIF.
- how the competition assessment can be achieved in a timely way
- the arrangements for funding pre-competition design and other work and how any restrictions on this activity will be operationalised.
- how interdependencies with other works can be accommodated in the process

Q33. Do you agree with our proposed approach on early competition?

Ofgem's discussion of early competition in the consultation document mainly relates to the development by the ESO of its Early Competition Plan. We have no comment on this. However, Ofgem states that it will “revisit projects of £50m+ in the Business Plans” where these have not been funded. We support this in principle but would be useful to understand which projects are going to be considered and when it will happen.

Cadent's Business Plan identified Hynet as a potential candidate for early competition. However, it appears that Ofgem considers it a candidate for the late competition. We consider that both routes may be possible as the project is still at a relatively early stage. We recommend that Ofgem reconsiders whether there might be greater benefit in applying an early competition model.

Q34. Do you agree with our view that SHET, SPT, SGN and WWU passed all of the Minimum Requirements, and as such are considered to have passed Stage 1 of the BPI?

No comment.

Q35. Do you agree with our rationale for why NGET and NGGT should be considered to have failed Stage 1 of the BPI?

No comment.

Q36. Do you agree with our rationale for why Cadent and NGN are considered to have passed Stage 1 of the BPI?

Yes. It would be disproportionate to fail Cadent for the single omission of not justifying the split of its Average Restoration Time incentive between Multiple Occupancy Buildings and non-MOBs, especially as this omission was reportedly quickly rectified.

Q37. Do you agree with our overall approach regarding treatment of CVP proposals? (revisit)

We take a first principles approach to answering this question.

Ofgem's aim for the Consumer Value Proposition (CVP) was to encourage companies to submit more ambitious business plans. To varying degrees the CVP has been successful in achieving that.

However, we have less confidence that the approach outlined will now incentivise the delivery of these ambitious proposals in practice during RIIO-2.

The regulator has rejected the majority of proposals in the business plans that make up the CVPs. In some instances this is rightly so - where proposals are not ambitious, should be business as usual already, were funded under RIIO-1, or add little consumer value, for example.

In other instances, CVP proposals have been rejected that are genuinely innovative and ambitious. Importantly they are ideas that have been inspired by stakeholder engagement and customer insight. Some of these elements have been rejected not because the general proposal or aspiration was flawed but because the evidence base, or methodology for the bespoke ODI or PCD that underpinned them is not yet robust enough.

Ofgem has, despite rejecting these CVP proposals, stated that "we do encourage the companies to deliver many of the activities as part of their day-to-day activities" and that it "would expect some activities to be delivered as BAU during RIIO-2."

In practice, we query if there is sufficient incentive for companies to now do this, especially in the context of a tough financial settlement, and worry that as a whole the treatment of the CVP is sending the wrong message to companies going forward - not encouraging companies to listen to their stakeholders nor to be innovative.

The CEG has concerns that some genuinely good ideas are 'being thrown out with the bath water', without appropriate consideration or without allowing time for flaws to be addressed. Consequently, outcomes that customers want and value won't be delivered.

Cadent has told us that with regards to the Final Determination they have to prioritise their focus on allowed totex spend and efficiencies. With less than eight weeks to respond to the DD, the CEG has concerns that the focus is on arguing for aspects of the plan that are financially more material and matter to the company. This will result in them not sufficiently championing relatively minor ODIs/PCDs that matter to customers.

To ensure customers do not miss out we propose that Ofgem:

- Look again at those CVP elements that have been rejected purely on the basis of an associated ODI being rejected. If a company chooses to continue to deliver the activity and benefit covered in the ODI, then it could still warrant a CVP reward.
- Give a view on the companies CVP propositions in the round not just individual elements. This includes acknowledgement and credit in the Final Determination to companies where appropriate that have demonstrated genuine ambition to deliver a step change in service. We believe this is the case for Cadent with much needed proposals on consumer vulnerability including the leadership it had shown with its funding model pilot; never leaving a customer vulnerable without supply among them.

- Importantly, reserve some kind of nominal reward or recognition for companies who nonetheless deliver on elements of their CVP as Ofgem hopes. This could be assessed at the end of RIIO-2. This is to provide some kind of carrot for the CVP elements to be delivered in practice and reflects the limitations of this particular part of the SSMD.

We do not agree that companies should receive rewards according to the original CVP methodology proposed. As alluded to in our CEG report to Ofgem, we believe the approach, while well intentioned, is flawed. The calculation of benefits delivered (for example using stated preference studies or social return on investment) is inherently uncertain and there is a substantial risk that in measuring and calculating these benefits, a figure is arrived at that in practice customers would not be willing to pay, nor is proportionate. That Ofgem is not proposing receipt of financial rewards for the majority of CVP proposals submitted, is in light of this methodology, a relief.

We query if the CVP elements that have been identified for credit/reward, while robust outputs, are in practice genuinely stretching and ambitious enough to warrant financial payment or acknowledgement and worry that Ofgem is setting the bar too low, and is out of step with good practice. We struggle to see evidence of the “wow factor” Ofgem said it was looking for.

We would ask Ofgem to provide greater transparency of the benchmarking it has done and to demonstrate how supported CVPs go above and beyond. For example, Ofgem proposes to reward £1.6m to NGN to set stretching time bound targets to make repairs. Cadent tells us that other networks already do this and that “GDNs have been reporting performance related to this in the RRP throughout RIIO-1”. It would be useful to understand how its approach differs. Also, that they were penalised for performance levels lower than those proposed by NGN. We would welcome clarification on this and relative company practice on timed-appointments in particular. We query if no net loss biodiversity targets on construction projects, and net gain from 2025, really go above and beyond the new normal of customer expectations or is simply anticipating and responding to UN Sustainability goals or the upcoming Environment Bill in line with companies to be more public purpose orientated.

Q38. Do you agree with our proposed clawback mechanism to treat received CVP rewards?

The lack of CVP rewards in the Draft Determination makes this question rather academic from a Cadent perspective at this stage.

However, in principle, we agree that rewards should be returned in the case of non-delivery. This helps to ensure that companies aren’t rewarded for proposals they had no intention of delivering.

We also note that the consultation says that “A company should not be left worse off than if it had not submitted the proposal for an undelivered CVP”. This should be caveated as customers should not be expected to pay for inefficient costs, poor delivery, or failure to follow good practice e.g. in the case of net biodiversity gain.

Clawback should also be considered in the case of: CVPs subsequently becoming a legal requirement e.g. as may be the case with regards to environmental standards; activity becomes business as usual for companies as expectations change - unless it can be clearly demonstrated that it is the company’s actions that have driven increasing expectations of business as usual.

On the other hand, there is also a risk that going forward (e.g. for GD2) a clawback mechanism which is rigidly based on whether the proposal is delivered or not will result in the perverse outcome that a company will NOT put forward a genuinely ambitious proposal which is risky in the sense that it may fail to achieve the outcomes which it are designed to secure (for example because it has never been tried before). This may have the result of inhibiting companies from proposing precisely the sort of ambitious ("wow factor") proposals that the CVP is designed to encourage. Clearly there is a balance but we urge Ofgem to consider carefully the potentially perverse incentive effects of a hard delivery clawback and perhaps find a way of providing some reward for proposals which are ambitious in the sense of deliverability even if they eventually fail to come off.

In line with this, if any of the CVPs been awarded and were genuinely pioneering in the DD we would have supported partial return of the money in the case of non-delivery.

Q39. Do you have any views on the interlinkages explained throughout this chapter?
Q40. Are there other interlinkages within our RIIO-2 package that you think are relevant to the three pillars identified in this chapter?

The CEG notes the drivers behind the explanation of interlinkages in the Core document, particularly the correspondence between CMA and Ofgem in late 2019 in which the CMA encouraged Ofgem to set out explicitly potential implications of interlinkages in its decision documents. The context for this correspondence was questions raised about the implications of decisions made in appeal where these could have an impact on a determination which had been considered "in the round". To this end the description of the interlinkages in the core document is welcome and seems to be a reasonably comprehensive attempt to capture some of the main sources of interlinkages at a high level.

We note that there will be many additional interlinkages that operate at a lower level of detail but consider that it would be demanding to catalogue them all at this stage. Having said that, we were struck by the absence of any description in the interlinkages **of intergenerational effects**. We think the balance of risk and cost faced by current versus future customers might be worth exploring.

We think that the concept of interlinkages will be relevant in other situations in which there is a change to the overall price control package in particular when Uncertainty Mechanisms are used. These could result in a material change in the overall price control package (e.g. via a change in totex). We suggest that Ofgem factors in consideration of interlinkages as part of its decision-making process on UMs.

Q41. Do you have any views on our proposal to include a statement of policy in Final Determinations that in appropriate circumstances, we will carry out a post appeals review and potentially revisit wider aspects of RIIO-2 in the event of a successful appeal to the CMA that had material knock-on consequences for the price control settlement?

There are potentially significant implications for companies and customers of making a change to a previously agreed determination after the appeal process has been concluded. We are not qualified to comment on this in any detail. However, our reading of the correspondence referred to in our response to Q39 above, does not suggest to us that the CMA signalled any material concerns about its ability to redetermine an appeal "in the round", particularly as it strongly encouraged both Ofgem and appellants to set out clearly any cross-determination impacts in the course of an appeal. We believe that implementing such a change warrants a more thorough examination and justification.

Q. 42 Do you have any views on the proposed pre-action correspondence, including on the proposed timing for sending such to Ofgem?

As a matter of good practice, we believe correspondence of this nature can only help to reduce the costs and risks associated with an appeal for both parties. We therefore welcome the proposals. We have no particular view on the precise arrangements.

Q43. Do you think we need specific mechanisms in RIIO-2 to manage the potential longer-term impacts of COVID-19? If yes, what might these mechanisms be?

It is clearly difficult at this stage to predict the course of recovery from the Covid-19, or what and when will emerge as a new “normal”. A worsening of the situation generally or at a local level is clearly a possibility.

Given this lack of clarity, CEG broadly supports the approach to COVID-19 impacts and risks set out in the Draft Determination. Using RIIO-1 close out mechanisms and seeking to capture any RIIO-2 impacts in the Final Determination seems sensible. If at that point, there remains substantial material uncertainty then using a further Uncertainty Mechanism would be appropriate. If so, this should use Ofgem’s "common principles", including a materiality threshold.

We do however think that Ofgem should revisit its approach to consumer vulnerability in light of Covid-19 impacts, in particular its ambition level with regards to the role GDNs play in relation to fuel poverty which feels out of step with need and public opinion (See GDQ2 p.44).

It is important that customer protection afforded by the regulatory regime is not unduly diluted and we note that full licence compliance is expected from 1st July 2020. This seems reasonable.

In relation to the RIIO-2 process, we welcomed the decision to replace the Spring open hearings with opportunities for the CEG to engage with Ofgem and the Challenge Group. We think the proposed open meetings in the Autumn are a good idea.

Cadent discussed its response to Covid-19 with us during the spring. More recently we have seen the outcomes of customer research focussing on measures required when visiting customers’ homes including those with vulnerabilities which may make providing important services more challenging. However, we have yet to see a holistic assessment of the overall impact of Covid-19 on Cadent, its activities and its customers and stakeholders. We will look to continue to engage on these matters. In particular, we will want to see how Cadent’s processes and activities have adapted in terms of communication, visiting customers’ homes or undertaking other work activities which may bring infection risk, and the financial impacts on customers. In doing so we will look to see how Cadent will continue to engage effectively with its customers particularly those that are or have become more vulnerable as a result of Covid-19. We will also be looking to see how Covid-19 has changed the way that it thinks about and manages its employees and contractors and is reflected in its ‘Trust Charter’.

We are keen to see how Cadent will innovatively use the opportunities presented to promote "green recovery" specifically and better customer outcomes, more generally.

Beyond the specific impact of Covid-19, we think there must be lessons to be learned about preparation for and dealing with substantial pervasive risks in general. We would like to see how Cadent’s preparations (including the identification of pandemic as a strategic risk and measures to build in resilience) actually played out in practice, and what lessons this brings for dealing with other categories of significant pervasive risk.

We think that the above mattes will be important for all energy networks and recommend that Ofgem takes an active role in co-ordinating and encouraging such review activity across the industry. We believe it will be crucial to facilitate sharing of good practice and ideas as the networks we continue to deal with this crisis. Moreover, we do not think there is a need to wait - lesson-learning can start now.

Gas Distribution Consultation

GDQ1. Do you have any views on our common outputs that haven't been covered through any of the specific consultation questions set out elsewhere in this chapter? If so, please set them out, making clear which output you are referring to.

Unplanned interruptions

We support the principle that network companies should have financial incentives in relation to unplanned interruptions. However, in our December report we expressed concerns over the proposed structure of the ODI-F for unplanned interruptions minimum standards, highlighting the potentially distortionary effects that can arise when the various different types of interruption are included within the same measure. We note that Ofgem has sought to manage this difficulty by including the possibility of a discretionary adjustment to the penalty amount where a higher than expected number of major incidents results "in a network company breaching their minimum performance level, despite otherwise performing well".

We continue to have a number of reservations about this proposed approach. First, we note that it only applies to major incidents, whereas similar distortions are possible given changes to the balance of MOBs and non-MOBs interruptions (other than in NL where the proposed structure distinguishes between these categories). Second, if the number of major incidents is lower than expected, the average interruption duration could fall, potentially masking poor performance by the companies. Third, a mechanism based on the ability of Ofgem to consider an adjustment would create a significant level of uncertainty in the framework.

Overall, we are concerned that the imperfections in the incentive structure could provide a distraction, with the network companies effectively incentivised to manage the distortions within the mechanism rather than having a sharp focus on the duration of unplanned interruptions themselves.

To address these concerns, Ofgem could consider creating separate incentives for MOBs and non-MOBs (excluding major incidents). Looking further ahead, we would encourage Ofgem to work with the GDNs on the development of a more robust measure in time for application in RIIO-3. This should take account of both the number of interruptions and their duration, and therefore better reflect the wishes of customers.

GDQ2. What are your views on the reporting metrics we have proposed for the consumer vulnerability ODI-R?

Consumer Vulnerability - see also cover letter comments p.9 point 12.

General comments

There is much that is positive for vulnerable customers in Ofgem's Draft Determination for gas distribution companies, but collectively the proposed package doesn't yet deliver what customers and stakeholders want or need in terms of accessibility, safety and affordability outcomes. This includes customer expectations on the scale of support, the type of support, and who should be eligible. The approach is not obviously aligned with Ofgem's Consumer Vulnerability Strategy 2025 and it doesn't deliver the stated aims of the regulator's SSMD. We welcome the commitment by senior leaders that Ofgem is open to improvements in this area and have outlined our recommendations below.

1. **Explain how the DD vulnerability package reflects customer and stakeholder needs and views and adapt its approach to reflect new insight and the changing context**

In its SSMD Ofgem stated that "Our objective for RIIO-2 is to ensure that regulated network companies *"meet the needs of all network users* and consumers including those in vulnerable situations." In the DD Ofgem is not clear on what it understands consumer needs to be, how they have changed since the SSMD was published, especially in light of the Covid-19 pandemic, and what it expects its proposals to achieve by way of improvements for consumers relative to current baselines.

Since the SSMD, there has been a huge amount of engagement carried out by Ofgem as part of its Consumer Vulnerability Strategy, network companies, and wider utilities, exploring the needs and wants of customers in vulnerable situations and those working with them. Also, research on consumer willingness to pay for social support. There is no evidence that Ofgem has considered this in its DD decisions. Ofgem needs to provide greater transparency on how it has responded to the wealth of insight available, and consistent with its public commitments to be a more agile regulator, to update and adapt its approach accordingly.

The lack of evidence base and strategic narrative undermines confidence that Ofgem has a clear vision for what this package will deliver in practice and the interplay between proposals. Linked to above, the DD makes no mention of the proposed new vulnerability licence condition, which is due to mirror SLC0 within the supplier licence conditions and how this fits within and will be supported by the wider consumer vulnerability package proposed.

Proposals appear to have been considered in isolation rather than as a collective package clearly linked to customer and wider evidence. We'd encourage the regulator to adopt more of an outcomes lens when drafting the FD and clearly demonstrate how it is has considered customer need and evaluated and reflected consumer insight.

2. **Monitor GDN vulnerability service provision as Ofgem does for suppliers**

Ofgem states that "We want to ensure that all consumers in vulnerable situations receive an appropriate minimum level of service from their network company, regardless of where they live". In addition, that it wants companies "to continually improve" how they meet customer needs. We query how the regulator will know that it has achieved this, as it has neither defined a minimum level of service nor, as far as we are aware, does it monitor the quality, timeliness, eligibility criteria or types of services available to consumers. In practice, the eligibility criteria for PSR services, the breadth of services, and the quality of services provided by networks varies.

The regulator should therefore learn the lessons from the supply-side of its organisation and require network companies (as part of its current consumer vulnerability monitoring) to report on the number and type of services actually provided to customers with additional needs (as it now does for energy suppliers) so there is greater visibility as to how and if the PSR is working in practice and who is really benefitting. Such monitoring would be in line with its commitments in the new CVS, help it understand if the aspiration for common minimum standards was being delivered in practice, and if initiatives funded by customers as part of the UIOLI allowance is becoming BAU and driving ongoing improvements as intended.

3. **Provide greater safety and accessibility protection for customers not on the Priority Services Register, as customers and stakeholders have said they wanted**

Most of the current protections and the DD proposals are focused on customers on the Priority Services Register. The number of customers on the PSR while increasing, remains in Ofgem's words “low” relative to need. The DD package therefore misses the majority of customers who may need additional safety and accessibility support.

Even if a customer is on the Register, the common PSR needs codes and data sharing agreed by water and energy companies (which have taken years to agree and deliver) do not include many relevant vulnerability risk factors e.g. new vulnerabilities such as customers shielding or lack of internet access - increasingly important during this pandemic with a growing reliance on online services.

While some companies go beyond these agreed needs codes and identify wider risk factors, GDNs don’t hold their own PSR and rely to varying degrees on not always timely data sharing from other companies.

As Ofgem states in its latest consumer vulnerability annual report “We acknowledge that using PSR data alone does not provide the full picture as a person may be in a vulnerable situation, but not require priority services available from the PSR in relation to their access, safety and communication needs.”[11]

In part to address the ‘accessibility gap’ the regulator in its Consumer Vulnerability Strategy 2025 (CVS) encourages inclusive design. The idea behind this is that if companies design *all* services so that they can be used by as many people as possible regardless of age, background, disability, or wider circumstances, it will increase ease of use and accessibility for everybody (and reduce customer contacts). Tailored PSR services will still be required, but not as many and the approach ends up being cheaper as well as improving customer experience. As Ofgem states in Outcome 4A of its CVS: “We want products and services to be designed to meet the needs of a wide range of consumers (including the most vulnerable)”[12].

In line with the aims of Ofgem’s CVS we therefore recommend:

- <u>An Inclusive service provision metric</u> - Ofgem to introduce a reputational common inclusivity and accessibility ODI which measures how accessible a companies’ key services are. This would complement the proposed PSR satisfaction metric and support the CVS. A common ODI could for example include mystery shopping by customers with additional needs of a range of company services (meter installations/relocations including smart meters, gas connections or alterations; reporting gas leaks, accessing information on priority services, accessing complaint handling and redress, and of course streetworks (where a poorly designed works can cause real detriment to customers who have poor sight or mobility problems for example). We’d encourage Ofgem to work with organisations such as Research Institute for Disabled Consumers (RiDC) to explore how this could best be done in a consistent comparable way. Alternatively, Ofgem could work with Cadent to develop its proposed Accessibility and Inclusivity bespoke ODI, pilot this and then roll it out more widely during the price control period as appropriate. This would update the DD decision in line with customer need and Ofgem’s Consumer Vulnerability Strategy. It would be a proportionate way to help monitor the effectiveness of the accessibility element of the proposed new consumer vulnerability principle. There is a huge amount of good practice already available on inclusive design including by Sustainability First’s Project Inspire Innovate for All report[13], which was part funded by Ofgem and includes good practice guides on identifying vulnerability and improving access. The latter provides practical examples as

[11] https://www.ofgem.gov.uk/system/files/docs/2019/09/vulnerable_consumers_in_the_energy_market_2019_final.pdf p.19 para 1.23
[12] https://www.ofgem.gov.uk/system/files/docs/2020/01/consumer_vulnerability_strategy_2025.pdf
[13] https://www.sustainabilityfirst.org.uk/inspire

to how companies can deliver improvements. Much of this is low cost yet inclusivity is still not embedded into GDN practice. This needs to be addressed.

- Planned/unplanned supply interruption - a separate customer satisfaction measure **-** We recognise that changes to GSOP 2 and 3 are intended to help prioritise the reconnection of customers on the PSR who are experiencing interruptions (though we question the 48 hour exemption). However, as with PSR customer satisfaction, these safeguards don't capture the experience of those not on the PSR and any customer is potentially vulnerable according to Ofgem's definition of vulnerability when without supply. Cadent proposed an approach to 'Never leave a customer vulnerable without supply'. We think this should be the approach for all GDNs especially as it is consistent with the expected intention of Ofgem's proposed new consumer vulnerability licence condition. We'd therefore encourage Ofgem to explore extending the current customer satisfaction measure to have a stronger focus on support and for sample sizes to be large enough for this to be a separate measure. This outcome focussed ODI could help to identify if all customers had access to the services they needed to stay safe and well and could monitor if the GSOP changes were working. It would also encourage the development of more innovative and comprehensive services to meet need. The update would be in line with CVS and reflect the lessons learned from the water sector following outages caused by the Beast from the East in Feb/March 2018.

4. **Apply the lessons learned from RIIO-1 to the Use it or Lose It allowance proposal**

In RIIO-1 Ofgem's Gas Discretionary Reward scheme has helped to catalyse network activity and collaboration to address social (predominantly fuel poverty) and carbon monoxide safety issues. In addition, the Stakeholder Engagement Incentive is designed to financially reward high quality activities undertaken by networks and the outcomes these activities deliver. This has supported an increase in partnership working, a rise in the number of customers on the PSR and encouraged GDNs to develop dedicated consumer vulnerability strategies. As Sustainability First's Project Inspire report found: "…funding is a key enabler for vulnerability innovation. For networks, the regulatory incentives have helped to prompt a sea change in activity to engage with and support customers with additional needs."

The aim of the incentives in RIIO-1 was in part to catalyse cultural change and embed a focus on engagement and consumer vulnerability within GDNs. In practice however while a whole range of activity took place, the report found that this was often not strategic, that the approach focussed on 'whizzy initiatives' sometimes at the expense of consistent good practice delivery. In addition, there is no mechanism to ensure schemes which were funded by customers actually then becomes business as usual (much of which didn't).

Ofgem states that the proposed £30m Use it or Lose It (UIOLI) allowance is for programmes addressing consumer vulnerability and carbon monoxide safety *"that go beyond business as usual"*. This suggests that this fund as with the NIA is for more innovative projects and doesn't cover the delivery of good practice business as usual. We query therefore if this is the intention, and if so how standard good practice BAU activity at scale which is sufficient to enable companies to deliver on the consumer vulnerability licence condition will be funded.

We'd welcome clarification as to how the different funding mechanisms will work and what Ofgem's expectations are for the sums likely to be spent on consumer vulnerability under the NIA. If the UIOLI is focused on more innovative schemes however we'd also encourage learning the lessons from RIIO, notably:

a) Ofgem takes steps to understand what current BAU practice actually is across GDNs else it is unclear how it will be able to assess if a project goes ‘beyond BAU’. It was clear from the evaluation of the Consumer Value Proposition that the regulator is poorly sighted both on customer need and on current company practice in this area.
b) Importantly, monitoring is set up to ensure that initiatives are translated into business as usual practice, not just within the company that is funded but across all GDNs. Otherwise, the UIOLI allowance will not ‘continually improve’ services as the SSMD said it intends, nor deliver the suggested best practice.
c) Appropriate assessment and monitoring frameworks are put in place that measure both monetised and non-monetised benefits to consumers and wider society. Given increasing stakeholder concerns about the weighting of consumer views in regulatory decisions, Ofgem should properly explore using alternative evaluation methodologies such as Social Return on Investment approaches, or wellbeing analysis as is outlined in the updated Treasury Green book, to ensure the wider public interest is captured.

We support 25% of this allowance being ring-fenced for collaborative projects. Collaboration should be encouraged and enabled not just between GDNs, and DNOs but also other sectors and parties. This encourages networks to build on existing initiatives, undertake necessary but more complex cross sector projects, and is in line with Ofgem’s CVS which outlines “Working with partners to tackle issues that cut across multiple sectors” as a priority expectation of companies.

5. **Review the funding envelope for consumer vulnerability in particular fuel poverty**

We are aware that a number of proposals around support for vulnerable customers have been rejected because Ofgem has decided to maintain its £30 million limit on spend in that area (i.e. the UIOLI allowance). This has been allocated between GDNs in proportion to the number of customers regardless of the quality of the proposals put forward, or regional differences in need, in order to avoid what might be perceived as a postcode lottery. In reality, service provision, quality of service and eligibility varies between GDNs and will continue to do so under the proposed approach. This decision means that there was little point in companies engaging or seeking to be more ambitious in this area. Given the added affordability challenges post Covid-19 we hope that Ofgem will revisit this in Final Determinations.

Regarding Ofgem’s decision on the size of the allowance in the SSMD, we appreciate that the proposed £30m UIOLI allowance is an increase in funding for consumer vulnerability (excluding FPNES funding) relative to RIIO-1. That to some extent Ofgem has in its decision already reflected that “stakeholders thought the allowance should be at least the upper end of the proposed £15-30m range” and that further funds are potentially available under the NIA. We also understand that Ofgem’s regulatory stance that government has the primary role to address fuel poverty.

In reality however, Ofgem’s stated evidence base for this allowance envelope decision is not transparent. Publicly available information appears to indicate that Ofgem’s engagement on these issues has been limited to the ‘usual suspects’ with a heavy imbalance of industry views and seemingly insufficient representation from a wide range of community and consumer organisations who would be interested in or impacted by these decisions. Unlike net zero, there has not been a dedicated webinar, and we have not seen evidence that Ofgem has proactively reached out to relevant consumer and vulnerability bodies many of whom are unaware of the price control process. We are also unclear how customer views have been taken into consideration in making this decision.

To address these issues, Ofgem may want to consider some kind of reopener for consumer vulnerability, perhaps linked to the timing of the net zero reopener, which will allow the regulator to increase the size of the UIOLI allowance if (and when) the maximum allowed allowance has been used by any company. The transition towards net zero will of course also have distributional impacts on consumer vulnerability including fuel poverty, with winners and losers. Research in this area should also then be more advanced.

6. **Enable GDNs to deliver a wider range of measures to tackle fuel poverty in line with good practice and stakeholder preferences**

We understand that in its SSMD Ofgem concluded that GDNs should not be funded for installing boilers, heating systems or energy efficiency measures. However, many stakeholders and consumers have subsequently expressed a clear preference for whole-house affordability solutions - including energy efficiency interventions and income and debt advice.

In its draft Fuel Poverty Strategy for England BEIS is consulting on its 'worst first' principle, which involves prioritising those in the most severe fuel poverty first, mutes the potential for households receiving multiple measures in one visit, to bring them out of fuel poverty sooner and minimise disruption to the household. BEIS highlights the importance of government prioritising approaches which provide best value for money for taxpayer funds. The same principle should be applied to networks and energy customers money.

Cadent customer research indicated that people felt that network affordability support should not just be limited to those without a gas connection (this is 'unfair'). The proposed approach, as it stands does not respond to this preference.

We also note that Ofgem has rejected some proposals around support including for energy efficiency and debt advice/benefits checks because it does not consider that to be the networks' role. While policy on delivery of energy efficiency programmes and fuel poverty is set by government, we believe Ofgem could and should allow some discretion for the networks in this space.

Ofgem faced a difficult decision around the continuation of the FPNES scheme at a time when we need to be looking to decarbonise heat. A challenge reflected in the split views of our CEG. In the Grid Edge Policy report on electric storage heating[14], the point was made that the FPNES scheme is driving the replacement of electric storage heating when the latter may well be a more viable long-term solution in the context of net zero. Improving the energy efficiency of these properties could provide a better solution than installing gas heating and the regime would benefit from allowing some flexibility in such situations.

BEIS's draft Fuel Poverty Strategy for England states "Part of cost-effectiveness is the consideration of 'who pays'. Central Government, local authorities, health services, energy companies, and landlords must work together in progressing towards the ambitious fuel poverty target and milestones. This consultation seeks views and evidence on how these groups can work together to deliver the aims of the fuel poverty strategy in a cost-effective way."[15] We do not think that Ofgem has defined GDNs role appropriately in this partnership context.

Where there is: customer and stakeholder support and consumer need; where the cross-subsidy remains relatively low and the benefit to communities and households high; where the network is best placed to deliver support in a way that is more timely, effective and cost efficient; it does not seem appropriate for there be regulatory barriers to activity.

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[14] 'An Electric Heat Pathway: Looking Beyond Heatpumps' available here.

[15] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/819606/fuel-poverty-strategy-england-consultation.pdf p.23

In its CVS Ofgem committed to "work closer with government on policy areas that affect our role as a regulator, such as fuel poverty policy or social security. We are committed to evaluating and monitoring progress towards these outcomes". If regulatory vires are deemed to be a barrier, Ofgem should proactively raise this issue with BEIS.

7. **Provide feedback on GDNs consumer vulnerability strategies**

Ofgem has not assessed companies' consumer vulnerability strategies as a whole and has provided limited feedback on their approaches. It is unclear what Ofgem considers good practice. Ofgem part sponsored Sustainability First's Project Inspire report which outlines standard and good practice and was referenced in its CVS. The regulator could draw upon this. This would also be in line with the RIIO-2 Challenge Group recommendation that company approaches towards vulnerability should be looked at in the round and benchmarked.

8. **Update the DD approach in line with Ofgem's 'new' Consumer Vulnerability Strategy**

Ofgem committed to updating the SSMD once its Consumer Vulnerability Strategy 2025 was published, or rather to "consider any implications for this decision once the consultation is complete." It is not clear if this has been done. By contrast, the joined-up approach with the new CVS adopted for ED2 is noticeably different in this regard. In particular, its CVS has a strong focus on inclusive service (Outcome 4A), which is not reflected in any of the DD decisions; on identifying vulnerability and embedding consumer vulnerability. Outcome 3A states "we want energy companies to have a corporate culture that focuses their efforts to identify and support consumers in vulnerable situations". In the case of the latter it is unclear how this has been achieved given the number of bespoke PCDs and ODIs for consumer vulnerability that have been rejected. The CVS also has a strong focus on partnership working. Cadent was not alone in proposing a bespoke stakeholder engagement ODI. It was disappointing that this was rejected. We think there should be common stakeholder engagement ODI (as opposed to customer satisfaction ODI) given its importance for the delivery of consumer vulnerability strategies, among many other areas, and the level of maturity of partnership working among GDNs despite the RIIO-1 incentives.

Comments on the proposed metrics

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Average PSR satisfaction score

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The requirement for GDNs to report on 'Average Customer Satisfaction for Priority Services Register customers' is welcome. It would be useful in the Final Determination if Ofgem could be clear what outcome they are expecting this to deliver. A key weakness of the current regulatory protections is the lack of monitoring of compliance with PSR licence conditions. As noted, the quality, availability and timeliness of safety and accessibility services provided currently varies across GDNs. A focus on satisfaction could help monitor the outcomes delivered and drive improvements by shining a spotlight on good and bad practice. We make the following recommendations to further strengthen this proposal:

- Many networks including Cadent already monitor PSR satisfaction, so the utility of this metric comes from how it is used. Publishing a league table of results including in Ofgem's annual vulnerable consumers report and *proactively* communicating this to relevant stakeholders, including the Customer Engagement Groups and media outlets, could help shine a spotlight on performance, improve accountability and raise the bar. As Sustainability First's Project Inspire report found:

"There is broad support (albeit more cautious and not without caveats from energy companies) for publishing more comparative data on company performance and service - both customer- and industry-facing. Where this exists (e.g. the energy network incentives 'league tables' and Ofgem's domestic suppliers' social obligations reporting), it can be influential in driving improvements. At best some companies are motivated to innovate since they want to be 'best in class', while others are motivated by a desire not to be out of step with the industry, nor to find themselves in the bottom quartile."[16]

- As with any satisfaction measure, the devil will be in the detail of the design - it will need to cover all those customers on the PSR, and distinguish between those who have/haven't received services; scoring should allow for sufficient differentiation between companies (for example performance out of ten, not five) if it is to really drive competitive behaviour between GDNs; and publication will need to be timely to ensure it's meaningful for example.

- Ofgem should adopt a similar approach for electricity network companies as part of ED2 and work with other utility regulators such as Ofwat, so cross-sector comparisons are possible. This will be important to deliver the 'best practice' it proposes in the SSMD.

Average CO awareness score via common survey

It would be useful to understand why Ofgem thinks this metric is needed and what it is hoping to achieve by it. Under RIIO-1 we've seen a good number of CO initiatives thanks to the Gas Discretionary Reward Scheme. Under RIIO-2 the UIOLI allowance already provides funding for this to continue. GDNs have a good track record of collaborating on safety issues, including carbon monoxide awareness with initiatives delivered under the GDR scheme currently quickly disseminated across the networks. Most companies, including Cadent, now test participants awareness after initiatives - some straight away, some after a short time to test retention/consolidate learning. Others monitor action taken as a result (arguably the most useful indicator). This is good practice and helpful to monitor and improve approaches' effectiveness.

This proposal would introduce a competitive element between GDNs. We are unclear why it is needed and question if it will be helpful. It could undermine collaborative working in this area. It would discourage the timely sharing of good practice. In addition, it could incentivise companies to target CO awareness programmes at those most likely to understand and remember information provided, rather than the most vulnerable. The survey would need to be taken both before and after to compensate for existing awareness levels (a value add score) to be remotely meaningful and mechanisms put in place to ensure it was robust and companies weren't encouraged to lead survey respondents. It may discourage genuine innovation for fear of average scores plummeting.

Number of Fuel Poor Extension Scheme (FPNES) connections

We understand Ofgem's attraction to an output that monitors the number of Fuel Poor Network Extension Scheme (FPNES) connections. However, despite acknowledging that companies "proposals were generally at the lower end of our expectations" it has does not appear to be proposing any changes to the targets - "target for each GDN will be set at the level proposed in its business plan".

[16] https://www.sustainabilityfirst.org.uk/images/publications/inspire/Energy%20for%20All-%20Innovate%20for%20All%20(full).pdfp.8

If they are able to deliver more FPNES connections, the additional costs will be provided through a volume driver. But it will limit the volume driver to limit delivery to the greater of the RIIO-GD2 or RIIO-1 target.

As a CEG, we have previously said that we have mixed views as to whether the Cadent targets are ambitious enough. Those who are supportive of the FPNES are concerned that the approach that Ofgem is taking gives little impetus to go beyond the target, and potentially even to get to the target at all, with no financial penalty.

GDQ3. What are your views on the design of the annual showcase events, including whether they should be held at a national or regional level?

We support an annual showcase event to raise awareness of GDN's work and to disseminate learning from their use-it or lose it (UIOLI) allowance initiatives and also from the NIA. This needs to be appropriately publicised including not just to other GDNs and network companies but third sector organisations and cross sector. The projects should be in the public domain. Ofgem may want to explore the introduction of a competitive element e.g. non-monetary prize. Any event needs to be independently organised so the best initiatives (against an objective criteria) are showcased otherwise it risks losing credibility along with many other industry award and practice sharing events. Alongside this, Ofgem should monitor the services that GDNs are delivering in practice (see recommendation 2 above) to ensure the sharing of learning is genuinely driving improvements in service provision.

GDQ4. Do you agree with our position to change the FPNES from a PCD to a capped volume driver?

Members of the CEG who are supportive of the FPNES scheme are concerned that the proposals provide a lack of incentive for suppliers to deliver at their stated ambition, let alone to go further than this. In the SSMD, the proposal for a PCD for FPNES was itself relatively light on incentive to deliver, given the lack of penalty, but at least was focussed on being a deliverable. The new mechanism, allowing cost recovery up to RIIO-1 levels of connections, in conjunction with a reputational incentive, with no penalty for missing targets, provides even less incentive for GDNs. Cadent struggled to meet its FPNES targets even when it faced penalties for non-delivery. We query if the company will realistically be striving to meet let alone exceed its FPNES target.

GDQ5. For GSOP3, is a 48-hour exclusion period for the provision of access to hot water and food in the event of a major incident appropriate? Should this be extended to cover interruptions that are not a major incident?

On GSOPs it would be useful for Ofgem to outline its customer evidence for the proposed changes and prescriptive measures posed.

We have reservations about formalising an exclusion period - waiting 48 hours - to provide access to hot water and food for a severely vulnerable customer who needs support. This would be incompatible with the proposed new consumer vulnerability licence condition which we expect to require companies to meet consumers' different needs in different ways (and that might mean earlier support). GDNs said that it takes them 48 hours to mobilise resources and contact relevant organisations. Looking to water for benchmarks regarding mobilisation of support may be useful to see if this is an ambitious enough target.

GDNs should be required to take all reasonable steps to provide support as soon as possible. From a customer point of view an interruption is an interruption - the cause of it and the size of it is irrelevant.

GDQ6. In relation to our proposal to extend quotation GSOPs on entry and exit connections, is it sufficient - in regard to green gas entry enquiries - for these GSOPs to apply to the provision of initial and full capacity studies? Are there other parts of the green gas entry process we need to consider to ensure an improved service provision?

We welcome Ofgem's proposal to remove the exemption for connection quotations to support greater accountability and improved service provision to green gas entry enquiries (and others).

Although we have not scrutinised Cadent's statistics on its response time to gas entry customers the company tells us that land enquiries and straightforward and there are no other external dependencies that affect its ability to respond within the proposed timescales.

GDQ7. What are your views on our consultation position to monitor the provision of and adherence to appointment timeslots for purge and relight activity through an ODI-R? Are our suggested reporting measurements reasonable?

This seems like a sensible approach to a) ensure that Ofgem knows how GDNs are performing and b) to incentivise better decisions in this area to the benefit of customers.

GDQ8. Do you agree with our proposed option to provide Cadent and SGN with consumer funding through totex baseline or a financial ODI reward for collaborative streetworks activities?

We agree with this option, but we think it should reward higher ambition. Companies already have an incentive for streetworks initiatives as some penalty payments are recycled into an innovation fund and an implicit incentive because costs are reduced if lane rental is shared. The effect of streetworks is felt across a true 'whole system', wider than energy networks (including at a minimum local authorities and other utilities) and it is an area where huge amounts of third-party data is available, so we would like to see Ofgem encouraging greater innovation .

In particular we query why this applies to just these two companies when there is clearly widespread consumer need. Heineken's joke advert is a reminder that this has been a problem for many years, not just for SGN and Cadent's consumers https://www.youtube.com/watch?v=THoCE_9tyfk. Ofgem has said it will use this as a pilot and then consider wider roll out during RIIO-3 but we think it unacceptable that other network's customers should have to wait until the next price control period. This is not in line with Ofgem's desire to be a more 'agile' regulator.

Any approach should capture other social values, e.g. the health benefits of minimising particulate emissions from idling vehicles or the value of avoiding disruption to individuals and businesses living close to streetworks.

GDQ9. How should we set targets for the shrinkage financial incentive?

GDQ10. Do you have any views on what clarifications are needed to ensure a consistent method of calculating the benchmark shrinkage volumes?

GDQ11. Do you think a deadband should apply to the financial incentive? If so, please provide evidence as to how this could be quantified.

Shrinkage forms the vast majority of gas distribution network carbon emissions and we welcome a package of measures that is focussed on their reduction. Regular reporting on performance in the Annual Environmental Report under the proposed ODI-R will help deliver visibility of company performance.

We support a strong financial incentive being put in place to incentivise emissions reduction but we do not have sufficient knowledge to take a view on Ofgem's proposals for the operation of the incentive. However, we agree that ensuring a consistent methodology is used across all GDNs would be an important component to fair and transparent target setting and tracking.

However the bigger picture here is that the level of shrinkage is closely aligned with the level of investment in mains replacement. In this regard, we would note that any disallowance by Ofgem of mains replacement activity proposed by the companies would have a direct impact on their ability to reduce shrinkage in RIIO-2 in line with their Business Plans.

In addition, we would like to see scope for companies to be rewarded for initiatives that reduce emissions in ways that are not currently reflected in the framework, provided that the reductions can be evidenced. In this regard we would draw Ofgem's attention to work at an EU level on methane emissions from a range of sources including gas distribution networks. It is clear that countries like Germany are placing a strong emphasis on measuring and managing leakage and we would encourage Ofgem to draw on this as it thinks about how to deal with leakage in RIIO-2 (including in assessing individual company proposals).

We welcome Ofgem's proposal to develop a common approach across all GDNs for the treatment of gas theft. We respond to the specific proposals in our response to Cadent Q1.

GDQ12. What are your views on our consultation position for the four GDNs' EAP proposals in RIIO-2 as set out in this document?

We support the inclusion of a common ODI-R for the reporting of the networks' Business Carbon Footprint (BCF) and also the common ODI-R for reporting on shrinkage (see our response to GDQs 9-11). Regular and clear reporting on progress will allow stakeholders to compare and challenge company performance. We support Ofgem's proposal that the GDNs should report on performance in a more consistent way, allowing easier comparison between different networks. We also support Ofgem's proposal to ensure that performance on leakage is explicitly reported in the AER, as a subset of shrinkage reporting.

The CEG accepted that the targets set by Cadent in its Business Plan for the reduction of its BCF were challenging and we note that Ofgem has accepted these. We welcome Ofgem's focus on proposals to shift the fleet to electric/ low carbon vehicles, as this was the area with the largest cost in Cadent's Business Plan. In our Report on the Plan we recorded our concern that the costs to consumers may be too high and we welcomed Cadent's proposals to trial the use of zero emissions vehicles and to keep cost/ benefit under close review. It is helpful that Ofgem has identified divergences between the cost estimates of different GDNs and we welcome Ofgem's proposal that the GDNs should submit further detailed information on their plans before Final Determination. We would support the creation of a PCD if Ofgem is satisfied that the plans provided by the companies offer value for money.

GDQ13. Do you agree with our consultation position to include progress on biomethane in GDN's AERs, alongside standard connections data?

Increasing the level of biomethane on the system is one of the critical ways that carbon emissions can be reduced in the short term. This is important given that cumulative emissions are what drives climate change - it is not just about achieving net zero in 2050. It is also an important opportunity to support new entrants into the industry. As such we would expect Ofgem, in line with its statutory duties, to put a strong focus on biomethane in RIIO-2. Ofgem suggests that the level of biomethane connections is largely outside GDNs' control. However there are various steps that networks can take that make connection easier or harder and a number of companies had proposed improved ways of working with biomethane producers. In particular one of the key challenges facing producers is that they are constrained off and unable to inject in summer periods when pressures are lower and there is the risk of "reverse flows" on the system. This is redolent of the challenges that ED has faced with connection of distributed generation. Thus while the level of biomethane connections is heavily dependent on policy support such as the RHI, there is still a central role for the networks in facilitating those connections and maximising input. What matters and needs to be monitored is not just the number of connections but the volume of biomethane injected onto the system.

We support Ofgem's proposal to include progress on biomethane connections in the AER. The timely connection of biomethane supply to the network supports emissions reduction and improved visibility of this sector is important. Biomethane producers are an important subset of the GDNs' customer base and they will particularly benefit from this information. We would welcome the GDNs working together to develop common ways of reporting this information, in order to deliver comparability. As highlighted, how you make the AERs effective is a key consideration.

GDQ14. Do you have any other comments in relation to this section?

No.

GDQ15. What are your views on the proposed set of Workload Activities for the Tier 1 mains replacement PCD?

As we noted in our December report, the banded structure of the proposed Tier 1 mains replacement PCD is helpful in reducing the scope for GDNs to make windfall gains through variations in their chosen project portfolios. We therefore continue to support this approach in general terms. Our only concern relates to the proposal to base this PCD on length of mains decommissioned - see GDQ16.

GDQ16. What are your views on our proposal to adjust allowances for the Tier 1 mains replacement PCD on the basis of mains decommissioned?

We understand that Ofgem's proposal to use mains decommissioned (as opposed to commissioned) as the basis for the PCD is relatively recent. From the perspective of maintaining a robust process, our view is that such a late change would normally be undesirable unless the benefits of the change are strong and clear, and the risk of unintended consequences is low.

It isn't clear to us whether there is sufficient scope for decommissioning mains without replacement to justify the additional administrative burden that will result, since data is not currently recorded in this way. Cadent tell us that such opportunities are very rare, but we have not had the opportunity to scrutinise this in detail. In addition, a potential unintended consequence is that if the unit costs associated with decommissioning and replacement are insufficiently accurate, GDNs could have a perverse incentive to replace pipes unnecessarily where decommissioning-only opportunities do exist.

Given these potential difficulties with this proposed structure, we would encourage Ofgem to carefully weigh up the pros and cons of the proposed approach before making a final decision.

GDQ17. What are your views on our proposed approach to setting unit costs for the Tier 1 mains replacement PCD?

Further to our comments on Q16, we would note that while decommissioning data recently provided by Cadent to Ofgem related to this proposal has been through a 3-step internal assurance process, there has not been the opportunity for any form of external assurance. Furthermore, we are aware that Cadent has had to caveat this data heavily given the limited time available for it to be provided.

GDQ18. What are your views on our proposed Allowance Adjustment Mechanism and Allowance Adjustment Restrictions for the Tier 1 mains replacement PCD?

Subject to the above and our response to Q16, we would broadly support the proposed Allowance Adjustment Mechanism and Allowance Adjustment Restrictions for the Tier 1 mains replacement PCD, which should provide appropriate incentives on unit costs and avoids customers paying for too many km laid within each work category. We note that Cadent has identified potential issues associated with the interaction between this PCD and NARMS.

GDQ19. What are your views on our proposed Workload Activities for the Tier 1 services PCD?

We broadly support the proposal for a PCD for Tier 1 services, in order that GDNs' revenues reflect the workload undertaken in this category. However, we believe that there is less opportunity for GDNs to manage their portfolios of work in order to outperform their allowances than there is for Tier 1 mains, which implies that a less restrictive PCD may be appropriate for services.

Cadent has told us that costs for domestic and non-domestic service replacement are relatively similar although we haven't had the opportunity to verify this. If this is the case, it may be unnecessary and potentially unhelpful to distinguish between the two within the PCD, particularly if the width of the funded deadband is 10%. The risk of making the control unnecessarily restrictive is that it could lead to perverse incentives for GDN to prioritise mains with a lower density of services, which may not be the most economic approach from the perspective of the whole IMRRP programme.

GDQ20. What are your views on our proposed approach to setting unit costs for the Tier 1 services PCD?

See response to GDQ19 above

GDQ21. What are your views on our proposed Allowance Adjustment Mechanism and Allowance Adjustment Restrictions for the Tier 1 services PCD?

See response to GDQ19

GDQ22. What are your views on our proposal for a common PCD for capital investments?

We broadly support the proposal for such a PCD in principle to ensure delivery for customers. We understand that the way in which such delivery is to be measured has yet to be determined. There is a risk that if measurement against the specification is at too low and detailed a level, it is possible that opportunities to deliver the outputs more efficiently and effectively may be discouraged and we would encourage Ofgem to consider measurement focussed on the outcomes or outputs of each project. We also note that many of the elements of the PCD are relatively low in value and so there is a question as to whether the regulatory burden of assessment is worthwhile. We encourage Ofgem to consider whether there should be a threshold for individual items.

The decision about measurement could impact the work of the independent engineer. We have no issue in principle with the idea of such independent scrutiny but believe that its scope and approach should be in line with the how delivery is measured so that if the focus is on delivery of outcomes and outputs then the engineer appointed to conduct the review could be tasked specifically to consider broadly whether companies have fully explored options for delivery and made reasonable decisions about the approach, rather than simply checking whether the precise specification has been delivered.

GDQ23. What are your views on our proposals for delivery, clawback and deliverables for the capital projects PCD?

We strongly agree that customers should be protected from the consequences of failing to deliver agreed and funded projects. However, at a time of major evolution , with all GDNs encouraged to take a whole-systems approach and be responsive to changing heat policy, the proposals to claw back all funding if only part of the project is completed could be seen as overly punitive if the company has made reasonable best efforts to deliver the project and if the project is substantially complete. It may mean GDNs take an overly cautious approach when flexibility would have better customer outcomes when considered on a whole-of-life basis. A process of ex-post justification by companies to retain some part of the funding (say if the scheme remains incomplete at the end of RIIO-2 for reasons outside its control or if re-phasing delivery would be benefit customers) may be an answer to this and perhaps it would be helpful to signal this clearly. We accept that such a process may result in a further regulatory burden, but we would encourage Ofgem to explore this and/or explain the circumstances where companies might retain part of its funding in cases of incomplete delivery. If Ofgem were to judge delivery on outputs/outcomes (as we suggest in response to Q22), then it may be easier to judge whether the project had been substantially delivered and to determine any funding of partial delivery (e.g. on a pro-rata basis).

GDQ24. Do you agree with our approach for funding physical security for the GD sector? And do you agree that in light of the proposed baseline totex that the physical security PCD is no longer required for the GD sector?

We broadly agree with Ofgem's assessment that the relatively small size of the scheme and its funding via baseline allowances reduces the need for a separate PCD. We comment above (Core Q19) on the proposals for a related Uncertainty Mechanism.

GDQ25. Do you consider that the enhanced obligations framework for exit capacity and the additional information being sought are appropriate?

The proposal not to have a financial incentive on efficient exit capacity booking is sensible given the recent changes to the NTS exit capacity charging methodology. We support the proposed reporting framework, which should encourage a greater level of collaboration across the industry and provide additional transparency around gas demand forecasts - the subject of significant interest given uncertainties associated with the Net Zero agenda.

GDQ26. - 33
No comment

GDQ34.What are you views on our proposed repex workload adjustments?

In setting the regulatory arrangements for the repex programme, an appropriate balance needs to be struck between cost and safety. In the case of Tier 1 and Tier 2A iron mains, pipe decommissioning is mandated via the IMRRP; Ofgem has allowed Cadent's proposed workloads for Tiers 1 and 2A other than for dynamic growth. Ofgem has disallowed dynamic growth "given uncertainty with forecasting workloads and the declining size of the Tier 1 population". We note that the test for Tier 1 replacement is proximity of a <8" iron main to a property, regardless of whether the property is connected to the gas network. We are therefore not sure of the significance of future gas demand uncertainty in assessing the likely extent of dynamic growth.

In relation to Tiers 2B and 3, decommissioning is subject to cost benefit analysis, and Ofgem has chosen to assess this in relation to payback periods for different categories of work, disallowing some of the CBA-driven workload on the basis that a payback isn't achieved by 2037. We would note that where Ofgem has disallowed investment on the basis of the payback period this has been done on a whole network basis, whereas in practice the proposed replacement projects are likely to comprise some schemes that do payback by 2037 and others that don't. Paragraph 3.87 of the GD Sector Annex implies that there is scope for Ofgem to consider partial allowance on the basis of this distinction, should the data permit this, which is something that we would support.

On the choice of 2037 specifically as the cut-off date for investment payback periods, given the very considerable challenges associated with heat decarbonisation, we consider 2037 to be at the early end of possibilities for when areas of the gas networks could feasibly become redundant. So while this choice of cut-off date would mitigate the risk of customers paying for investments that ultimately prove to be uneconomic, it creates a risk of delay to investments that ultimately prove to be economic. We would therefore encourage Ofgem to consider whether on reflection this cut-off point provides a balanced approach to managing the respective risks.

Cadent also proposed a programme of safety-driven replacement work within its steel pipe population, pointing to levels of risk that breached the threshold level for iron mains. We challenged Cadent at some length on its justification of the level of risk presented by these pipes and its proposals to address that risk. We became broadly comfortable that its steel pipe population did represent a risk which appeared to be comparable to that presented by the remaining iron pipes, noting the involvement of a third party consultancy in supporting the methodology for the risk calculations. Given this, we thought it was reasonable for Cadent to include its proposals in the Business Plan.

We recognised at the time that there is a question of whether the need to replace or otherwise remediate these pipes is the subject of an absolute obligation on Cadent (via the Pipeline Safety

Regulations). This is a question of legal interpretation on which we are not in a position to give a view. We assume that Ofgem would discuss this with the HSE before finalising any decision to disallow work that would mitigate the risk associated with these pipes.

Notwithstanding the legal position, disallowing all of Cadent's proposed investment in the remediation of steel pipes could have implications for customer safety, should that result in no action being taken to remediate this risk. We are worried about this and believe that it needs further exploration prior to Final Determination.

From a customer perspective, we note a) that safety consistently figured very strongly amongst Cadent's customer priorities and b) Cadent's acceptability testing demonstrated broad support for their plans. Notwithstanding this, we believe that Ofgem is right to challenge Cadent on whether there are alternative risk remediation measures that can be deployed to properly manage the steel pipe population in a more cost-effective way. Our understanding is that it may be possible to devise enhanced maintenance regimes for steel, but whether such regimes could manage the risk both adequately and economically would need to be carefully assessed. We note that if the disallowance of repex workloads would lead to additional opex in a way that was previously not assessed, this might imply the need to rerun the CBA analysis, which could show earlier payback dates. More generally, however, we believe that any assessment of alternative regimes should consider the trade-off between the cost and safety benefits of the alternatives rather than simply aim to identify the 'cheapest' approach that manages risk below an acceptable level.

GDQ35. Where we have disallowed workloads, should we consider making corresponding adjustments to opex costs? If so, how do you think this could be done?

To the extent that Ofgem disallows repex workloads, it would be appropriate to fund additional opex that would arise in relation to enhanced maintenance and repair regimes and, assuming risk is not managed to the same level, within the emergency response function.

Questions 36-42

No comment.

GDQ42. Do you have any views on our common UMs that haven't been covered through any of the specific consultation questions set out elsewhere in this chapter? If so, please set them out, making clear which output you are referring to.

No

GDQ43. What are your views on the proposed re-opener for Tier 1 stubs?

We agreed with Cadent's approach in their December Business Plan not to seek baseline funding for Tier 1 stubs. Consistent with this, and given the ongoing uncertainty around the HSE review, we support the principle that Tier 1 stubs should be the subject of a re-opener.

GDQ44. What are your views on our proposal to introduce a <7bar diversions re-opener?

We rated Cadent's proposed UM for diversions as amber in our December report because we were unconvinced about materiality. We note Ofgem's acceptance that this is needed for diversions that are <7 bar. We understand that Cadent is arguing that some larger projects include work that is > 7 bar and that these should also be included given their potential scale.

GDQ45. What are your views on the triggers and windows for the MOBs safety re-opener?

We are pleased that Ofgem has recognised the need for a mechanism to support investment for customers in MOBs. We have no particular views on the details of the mechanism.

GDQ46. What are your views on our consultation position to address bespoke decarbonisation of heat re-openers through our proposed innovation stimulus, Net Zero and Heat Policy re-opener mechanisms?

In our responses to Q12 and Qs 21-25 above we have commented on the principles of using UMs to manage this uncertain area and the specific concerns we have about the net zero mechanisms that are being established. All of those points are also relevant here.

We support the heat policy reopener and the decision to have a common approach across all GDNs rather than company specific measures. This will allow joined-up decisions to be made on investment necessary to achieve net zero in the heat sector, reducing the risk to customers. However, the way in which this mechanism will interact with the Net Zero Reopener and the SIF is not yet completely clear, as we discuss in our response to Qs 22 and 23 where we ask Ofgem to provide clarity on the pathway for the networks to make use of the package of mechanisms.

In particular, we welcome the proposal to create an industry roadmap for hydrogen as this will deliver certainty for investors from the different sectors who may become involved in projects. We urge Ofgem to make rapid progress on this in order to ensure that investment can take place in a timely way, ensuring that customers are not exposed to excess cost either from investment being made too early or too late.

It is not clear that the two trigger points for the reopener - January 2022 and 2023 - will mesh appropriately with heat policy announcements and provide a timely framework for investors to use. We would prefer to see a more open approach to triggering the reopener.

Ofgem has rejected a Cadent proposal for a UM on work relating to entry enablement, including a specific measure on charging methodologies. We had some concerns about the structure of the measure proposed by Cadent, however we did accept the need for rapid progress on getting the underlying conditions in place to allow charging for hydrogen to happen. We understand that Ofgem envisages this being supported under the Heat Policy reopener (although it is not clear to us why this work should be dependent on a heat policy decision) and we would welcome confirmation of this.

GDQ47. What are your views on the questions set out in paragraph 4.57 of this document in relation to large hydrogen projects?

We agree that the questions Ofgem has set out in para 4.57 need to be resolved to allow funding decisions to be made. These are largely for the networks to respond to. We are encouraged by the creation by the ENA of the Gas Goes Green project which should help the networks to rapidly develop a coordinated approach on these issues.

In particular it is important for decisions to be made on how the costs of large hydrogen projects should be shared by consumers in a fair way that supports the long term development of these technologies, if they are to form part of the net zero strategic road map. We would highlight the lack of cross industry customer engagement to date on this question. We set out in our responses to Qs 21 and 22 on the Core Document our deep concern that customers are not being actively informed about the future role of gas and the transition to net zero. We have challenged Cadent to carry out its own engagement on this issue which they have responded to. Further collaborative engagement by Government, the regulator and the industry is needed to ensure customers have the opportunity to understand the changes that are coming and to help make new policies work with their needs, especially as customers must understand how investment in gas futures has interdependencies with other developments such as carbon capture and storage that are outside the GDN areas of engagement.

GDQ48. Do you have any other comments in relation to this section?

No.

GDQ49. What are your views on our proposal to introduce a new domestic connections volume driver?

We support this proposal which we rated green in our December report.

GDQ50. What are your views on our proposal to continue with the large loads re-opener?

GDQ51. Do you agree with our definition of a 'large load' to use for this re-opener?

We understand the need for a UM in this area given the materiality of the investment involved and the level of uncertainty. Cadent proposed a volume driver for reinforcements above baseline, and we had some concerns over its design, particularly in relation to the assessment of unit costs and the risk of discouraging innovation.

The intention of Ofgem's proposal is to cover such investments via a re-opener rather than a volume driver, which on the face of it would address the concerns that we identified in December. A re-opener would however carry a higher level of regulatory burden. Cadent has expressed concern over the definition of large loads within the proposal and whether this would in practice capture all relevant reinforcements. We are not in a position to comment on the detail of the proposal but would encourage Ofgem to consider this carefully to ensure that the UM ultimately proposed would operate in practice consistent with the intention of the mechanism.

GDQ52. Do you agree with our proposal to continue with a smart meter rollout re-opener?

We support this proposal.

GDQ53. Do you agree with our proposal to continue with a common streetworks re-opener?

We support this proposal.

Cadent Consultation Questions

Cadent Q1. Do you agree with our proposals on the bespoke ODIs? If not, please outline why.

We support Ofgem's position on the following bespoke ODIs with some notable qualifications:

- *Time-bound appointments*
  We support the decision to reject this ODI given Ofgem's proposal for a common ODI in this area. However, Ofgem needs to ensure that the common requirement genuinely goes beyond standard practice and meets the higher performance bar proposed by Cadent. This means the customer a) Gets a two-hour slot of their own choosing that fits with their schedule, not one allocated by the GDN according to their preference b) This slot is at no additional cost to the customer c) This is proactively offered, not just if the customer asks for it, or fails to show for an appointment d) There are stretching targets such as Cadent's proposed 90% adherence target.

- *ODIs relating to delivering an environmentally sustainable network*
  Cadent submitted a number of proposals for ODIs relating to the output "Deliver an environmentally sustainable network":
    - A reputational ODI on carbon neutral operations including supporting Cadent staff to reduce their emissions
    - A reputational ODI on zero waste to landfill
    - A reputational ODI on connection standardisation, to facilitate distributed entry gas connection which would predominantly be biomethane

  Ofgem has rejected these, pointing to the requirements set out in the Core Document and the GDN Document relating to carbon reduction. We broadly agree with Ofgem's proposals on the first two of these measures (see our responses to Q9 and GDNQs 9-14). However, we note that the issue of staff emissions has become more important with the widespread use of homeworking as a result of COVID-19. Company direct BCFs may fall as a result, yet the work the business is carrying out will be creating increased carbon emissions in the homes of their staff. We urge Ofgem to consider a mechanism to capture staff emissions in the updated AER and EAP guidance for all networks as this is developed in the second half of this year.

- *Joint planning office*
  We agree with Ofgem's assessment that this proposal contains valuable activity and support the approach Ofgem proposes to include the funding linked to this ODI in the baseline allowance. The CEG will maintain a focus on Cadent's delivery of this activity during the RIIO-2 period which should mitigate risk of this relatively small but important area being deprioritised.

- *Streetworks* coordinating with others
  We support the approach to this given the decision to develop a consistent incentive with SGN. See p.53 response to QGD8 for our views on this.

- *High rise building plans* - which Ofgem accepted.

- *Trust Charter*
  We agree not all targets are sufficiently stretching or developed. We support Ofgem's

proposal to introduce a separate *community fund ODI-R.* It is important that the reporting for this is not just money spent, but some measurement of benefit delivered. Cadent has committed to report on progress on its Trust Charter to the CEG and this will form part of our revised Terms of Reference following the publication of the Final Determination.

- *The following customer service metrics*
  Responding to your enquiries and *Establishing and raising the bar for all our customers*, *MOBs scorecard* and *Improving our household connection service*, given the robustness of these proposals to date, along with Ofgem's encouragement for Cadent to develop these as a KPIs. Regarding, *private reinstatement timeliness* - the CEG is mindful that reinstatement is the single biggest driver to poor C-Sat scores so will monitor progress on this area with particular interest.

- *Tackling theft of gas*
  The CEG supported Cadent's proposal to find ways to tackle theft (although we did not support its inclusion as a measure in the Consumer Value Proposition). We note Ofgem's proposal set out in the Gas Distribution Document to develop a common approach with incentivisation provided under the totex Incentive Mechanism. We support this as we would expect the inclusion within totex of both the relevant costs and revenues to provide sharp and efficient incentives to the GDNs to investigate suspected cases of theft where it is economic to do so.

- *Average restoration time for total unplanned interruptions*
  Cadent's proposals for bespoke reputational ODI for unplanned interruptions and an alternative method of measuring interruptions performance were not accepted by Ofgem but Ofgem suggested the company use these measures as part of their stakeholder engagement. As we note in response to GDQ 1, we would encourage Ofgem to work with the GDNs on an improved measure of unplanned interruptions, such as that suggested by Cadent, for potential use in RIIO-3.

- *Pioneering new funding model trial* - the CEG strongly supports this Cadent proposal but acknowledges that it may not be best suited to an ODI. We will encourage Cadent to take this forward via other mechanisms given the established need.

We encourage Ofgem to reconsider the following bespoke ODIs:

We urge the regulator to work with Cadent to improve the robustness of these measures so that the outcomes stakeholders want and need are still delivered. Given what is seen tough financial settlement and with no reward allocated for Cadent under the CVP for the following initiatives, we raise concerns about the risk of non-delivery of the activities that underpin these ODIs. As has been indicated by the level of detail Cadent has provided in its response to the DD, these outcomes that matter to customers, risk slipping down the company's priority list.

- *Measuring and enhancing accessibility and inclusivity*
  We agree that Cadent does not need an ODI to become BSI 187 (Inclusive service provision) certified. However, given that Ofgem recommended this Standard in its 2013 Consumer Vulnerability Strategy (CVS), we think it would be useful to have some mechanism to shine a positive spotlight on those companies that have adopted it. As Ofgem says in its latest CVS

‘this can be used as a benchmark for organisations in developing fair and flexible access to services. The standard sets out procedures to ensure inclusive services are accessible to all consumers equally, regardless of their circumstances’. As a minimum, companies who have adopted the standard (and are accredited) should be named in Ofgem's annual vulnerable consumers report as part of good practice activities. This kind of reputational regulatory driver by Ofgem will encourage Cadent and others to continue activity in this area.

However, we strongly disagree with Ofgem's decision to reject Cadent's proposed ODI-for Measuring and enhancing accessibility and inclusivity. Ofgem has rejected this on the grounds that it is not clear that this would be sufficiently stretching to warrant an ODI, yet has provided no alternative to ensure customers achieve the same outcome. As highlighted in our response to GDQ2, this ODI plugs an important gap in consumer protections. Ofgem's proposed PSR satisfaction measure only captures the experience of those on the PSR. It is intended to encourage Cadent to develop inclusively designed services. It will help ensure that all customers can access key services, not just those on the PSR. This is important as the vast majority of customers with access needs are, as Ofgem states in its annual progress report on consumer vulnerability, not on the PSR. It was actively encouraged and supported by the CEG given feedback from customers and wider stakeholders and it is consistent with Ofgem's latest Consumer Vulnerability Strategy "Outcome 4A: We want all consumers (particularly those in vulnerable situations) to have access to affordable energy and suitable services. We want products and services to be designed to meet the needs of a wide range of consumers (including the most vulnerable)". We agree that the design of this metric needs further work. One approach could be to work with an organisation such as RiDC to undertake mystery shopping by a panel of customers with different disabilities and access needs (including lack of internet access) to develop an accessibility score out of ten. This activity has been proposed in response to consumer feedback, it did not require funding over and above baseline and was to be provided without adding to customer bills. We strongly urge Ofgem to work with Cadent in this area. This would be useful ODI for all GDNs once refined.

- Targeting customers in fuel poverty
  The aim of this ODI is to improve the targeting of fuel poverty support. We recognise that this activity can be funded under NIA or UIOLI but do not think the annual showcase, with so many other activities to be demonstrated, will provide sufficient visibility for this activity. Improving fuel poverty targeting is a:
    - Stated aim of the SSMD
    - Current government priority as stated in its draft 2019 Fuel Poverty Strategy for England
    - Clear requirement of Ofgem's new Consumer Vulnerability Strategy - "Outcome 2D: We want new gas connections for fuel poor consumers who are not on the gas grid to be better targeted, to make sure those who need it most can benefit from the scheme and save on their heating bills"
    - Customer and stakeholder priority who want money to be efficiently spent on those most in need.

  In addition, the Covid-19 pandemic has increased affordability challenges making it all the more important that limited support is well targeted. We urge Ofgem to reconsider a reputational ODI in this area.

- *Enhanced engagement on whole systems thinking*

  The CEG initially supported this proposal in principle but flagged it as an area for further scrutiny by Ofgem. We recognised that while whole systems engagement should be business as usual this wasn't happening effectively in practice. Having seen the package of measures to support net zero including the scope for collaborative innovation projects we've greater confidence that companies have incentives to engage meaningfully beyond current and future customers, individual companies, and the GDN sector to accelerate whole systems solutions and thinking. However, without this ODI, that Cadent proposed to be adopted as a common ODI, there does not appear to be any mechanism that supports up front engagement to develop plans or projects with other regulated companies or the energy system or more widely. Cadent has cited examples of a frustrating lack of engagement by some other energy companies which is confounding progress on whole systems thinking. The company's engagement also highlights that significant work is still required to ensure customers understand and have their voices heard in the transition to a zero-carbon economy and that this would be best done collaboratively. Ofgem is encouraged to consider ways in which all energy companies can be required to engage more effectively with each other together with external stakeholders such as Local and Regional Authorities in whole systems thinking until such time as this becomes accepted BAU practice and to recognise the cost of so doing.

- *Stakeholder measures*
  Cadent proposed to establish a stakeholder satisfaction measure in order to understand how satisfied its stakeholder *organisations* are. We agree that there is insufficient detail on the targets or value around this. However, we disagree that this need overlap with the existing customer satisfaction survey output and question whether the aim may have been misunderstood. The purpose of this ODI is to improve how Cadent engages with organisations and their representatives impacted by, interested in, and working with Cadent. The CEG supported this ODI as the company had not historically systematically mapped its stakeholder organisations, thought strategically who they were engaging with and why, nor did it know if stakeholders were getting the 'service' that they expected and needed. Partnership working and collaboration are critical for the cost-effective delivery of a number of policy areas, including customer service, consumer vulnerability including tackling fuel poverty, net zero delivery, and is key to whole systems working.

- *Better roadworks information*
  Ofgem commends Cadent for proposing an improved streetworks service for consumers and stakeholders but rejects the ODI as there is insufficient evidence of a measurable and sufficiently stretching target for this output. Given that this is a high priority for consumers and communities with significant potential benefits, we encourage Ofgem to work with Cadent in further developing this.

- *Connections standardisation*
  The CEG has challenged Cadent to take a proactive, industry leadership role in improving the industry's accommodation of entry gas connections to accelerate the rate of green gas entry. This ODI-R rises to our challenge and is backed by exploration of existing market failure, contractual and technical impediments. Whilst it is possible that the proposed activity would go ahead without an ODI-R and that it could be captured within the AER,

accepting this as an ODI-R would afford it more prominence both across the sector and with external stakeholders. Should the current variety of connection arrangements continue, the evidence indicates that entry gas connections will continue to be unnecessarily time consuming and costly to arrange, (for potential gas entry customers) perpetuating the impediment to green gas connection and the consequent proportion of low carbon gas in the network. Ofgem recognises and encourages Cadent's review of entry connection charging but rejects this ODI as it has not set out any measurable outputs beyond establishing the Forum nor how this would materially benefit gas customers. We encourage Ofgem to work with Cadent to come to an acceptable solution on this. It is true that the outcome may not be fully within its control, but neither is any customer satisfaction measure which is influenced by the weather, the media and any number of variables, but these are still standard practice!

Cadent Q2. What should the annual targets be for Cadent's high-rise building plans ODI-R and how can they be made sufficiently stretching?

We understand that Cadent is proposing to spread this work evenly over the RIIO-2 period apart from in year 1 where a lower level of delivery is proposed. We have challenged Cadent on this in order to understand whether such a profile is justified, or whether a more aggressive programme could be undertaken. Given the number of high-rise buildings in question, the need to mobilise post-Covid and the amount of work involved in each case, including stakeholder engagement, we have no reason to tbelieve that the plan put forward by Cadent is not appropriately stretching.

Cadent Q3. Do you agree with our proposals on the bespoke PCDs? If not, please outline why.

We support Ofgem's decisions on the following:

- Off-grid communities
  Ofgem's decision to reject the Off-grid communities' PCD. This is in line with the CEG's views outlined in our report.

- Personalising welfare services
  Ofgem keeping the door open for Cadent to improve the evidence base for *personalising welfare services*. This is because:
    - It addresses an important gap in protections that exists despite Ofgem's proposed improvements to GSOP 2 and 3.
    - The proposal recognises that any customer without supply is at risk of being in a vulnerable situation and will help ensure services are available to the most vulnerable who need help, not just those on the PSR. It enables Cadent to deliver on the spirit of the proposed new consumer vulnerability licence condition (meeting all customer needs not just those on the PSR).
    - As we noted in our report to Ofgem, there is a positive calculated net benefit, based on stated preference in WtP research (£7.40 per £).
    - There is also strong stakeholder support for this.
    - The company also responded to mixed customer feedback by moderating its ambition.
    - A number of networks are already providing these measures, as is Cadent - though not at the proposed scale, and they should be the new de-facto standard. If the UIOLI allowance is only funding activity 'beyond BAU', as standard good practice

which is required for compliance with the new licence condition we query if this work qualify would qualify.
    - In July and August the company tested customer acceptability of its business plan. Though we cannot comment on the robustness of that research, it reported that acceptability of the business plan halved when it removed this output from the plan.

We urge Ofgem to reconsider the remaining rejected PCDs:

In the case of consumer vulnerability Cadent has said that while it will endeavour to do many activities outlined in its business plan that the rejection of these PCDs will result in significantly less work being undertaken to support customers in vulnerable situations.

<u>Services beyond the meter</u>
We encourage Ofgem in particular to reconsider its decision on PCD Services Beyond the Meter. Cadent has committed to 'never leave a customer vulnerable without gas' and we think this is the right outcome and consistent with Ofgem's proposed new consumer vulnerability principle. We strongly support proposals to repair or replace unsafe appliances for the most vulnerable - this has been a historic gap in consumer protections and a problem raised by consumer groups for many years.

Ofgem has rejected this because "in our SSMD we stated that we would not fund the installation of boilers and heating systems through the price control where there is already national, devolved and local government funding for boiler repairs and replacement. We think GDNs should continue to leverage these funds through their partnership networks." We think Ofgem should reconsider this for the following reasons:

- In practice, leveraging funds in *England* in a timely is way can be challenging and need outstrips easy availability.
- This activity falls within what Ofgem states in its SSMD as "an appropriate role" for GDNs given it involves "Taking measures to address vulnerability when responding to emergencies and through their customer service functions". This includes appliances which are condemned following safety checks.
- The approach has a relatively strong net benefit (based on SROI) RIIO-2 (£3.30 per £ invested).
- There is real need and it has positive stakeholder and customers support. Business Options Testing indicated good levels of customer support though testing was at a slightly lower cost than that outlined in the business plan.
- Ofgem's argument doesn't seem to recognise the different policy context of England, Scotland and Wales (and the seemingly lower availability of support in England).
- It seems inconsistent to enable support for CO awareness and alarms under the UIOLI allowance and to propose a common ODI but to reject funding for this. We understand CO alarms and information awareness campaigns are also are available for free from a range of sources including the fire brigade.
- For CO Ofgem says companies are well placed to play a role despite the fact that appliances impacted are not their direct responsibility. With replacing or repairing appliances this is even more the case as GDNs can be responsible for shutting these appliances down, know who is impacted, can see who will suffer detriment and are well placed to take timely action that could prevent serious detriment.

- In light of the customer and stakeholder support and the need, the relative cost, it seems to defy common sense that Ofgem is not enabling this activity beyond the UIOLI allowance.

Cadent also proposed the following initiatives as bespoke PCDs which were rejected:

- Needs identification
- Enhanced carbon monoxide awareness
- Additional fuel poverty interventions
- Income and energy efficiency advice

Ofgem rejected them as a) "we took a decision on the size of the allowance in our SSMD" and the proposals exceeded this b) we "think it appropriate to maintain an even distribution of funding across the GDNs to prevent a disparity of services available to consumers in vulnerable situations across GB."

Argument 1: Disparity of services

Across GB, there is already disparity of services available to consumers in vulnerable situations by GDNs. This includes different eligibility criteria, different types, numbers and quality of services. To some extent this has been encouraged by the incentive schemes available under RIIO-1.

Ofgem appears to have low visibility of the services GDNs currently offer to customers. This is why we are proposing recommendation 2. p.44 for the regulator to monitor the delivery of services for customers in vulnerable situations. In addition, for Ofgem to give a view on the quality of GDNs consumer vulnerability strategies as a whole and to articulate what its expectations now are regarding minimum standards (after years of RIIO-1 incentives funded by customers, and Ofgem's excellent work to showcase good practice, we would expect this to be higher than those in the current outdated licence conditions).

The proposals outlined in the DD will accentuate this 'disparity of services'. Companies will use the UIOLI allowance in different ways, some will access the NIA for consumer vulnerability schemes while other GDNs will opt not to.

While minimum standards are indeed welcome, some degree of variation beyond this may also be helpful, and was, we understood in part the intended aim of the bespoke ODIs and PCDs as set out in the SSMD.

Variation should reflect the different needs and requirements of customers and communities in different network regions. E.g. some communities will have higher levels of fuel poverty than others, different distributions of elderly people with mobility problems and dementia, others more non-English speakers or young families and service provision should therefore reflect these differences.

Indeed, in the DD Ofgem says "we will not require the GDNs to set out specific initiatives in their Business Plans. This flexibility will allow the GDNs to continue to engage with partners, to adopt new ideas and strategies, and to address the changing needs of their customers throughout RIIO-GD2".

Rejecting funding to prevent a disparity of services available to consumers in vulnerable situations across GB is not therefore a legitimate argument, nor is it consistent with the original aims of bespoke ODIs and PCDs as set out in the SSMD nor the stated aims of the DD.

Argument 2: The size of the allowance for consumer vulnerability

Regarding Ofgem's decision on the size of the allowance in the SSMD, we appreciate that the proposed £30m UIOLI allowance is an increase in funding for consumer vulnerability (excluding FPNES funding where spending on fuel poverty is uncertain) relative to RIIO-1. That to some extent Ofgem has in its decision already reflected that "stakeholders thought the allowance should be at least the upper end of the proposed £15-30m range" and that further funds are potentially available under the NIA.

However, Ofgem's regulatory stance recognises that despite government having the primary role in addressing fuel poverty, the regulator "will consider interventions where consumers in vulnerable situations are at significant risk, the benefits of intervention are significant and the redistributed costs are low."

As outlined on page 22-24 of our CEG report proposals put forward by Cadent for the most part responded to clear need, delivered notable consumer and societal benefits, redistributed costs were relatively low, proposals reflected customer and stakeholder levels of support, and were generally at the more conservative end of what customers were willing to pay.

In reality Ofgem's stated evidence base for this allowance envelope decision is not transparent. Publicly available information appears to indicate that engagement on these issues has been limited to the 'usual suspects' with a heavy imbalance of industry views and seemingly insufficient representation from a wide range of community and consumer organisations who would be interested in or impacted by these decisions. Unlike for net zero, there has not been a dedicated webinar, and we have not seen evidence that Ofgem has proactively reached out to relevant consumer and vulnerability bodies many of whom are unaware of the price control process. We are also unclear how customer views have been taken into consideration in making this decision.

The pandemic has clearly resulted in new types of consumer vulnerability, and it is likely that there will be an increase in not just the number of households struggling to afford their bills but the depth of financial hardship faced by many, including some who have never faced precarity in their finances before.

Additional fuel poverty interventions and Income and energy efficiency advice

Linked to the above, we urge Ofgem in particular to reconsider Cadent's fuel poverty related PCDs. Not just the scale of funding provided but also the types of support allowed.

The company estimates there are at least 1.5m homes on Cadent's networks in fuel poverty, representing 58% of the total fuel poor households in the UK. From the top 20 local authorities in England most affected by fuel poverty, 19 are within its boundaries. In its most severely affected area, there are 1 in 5 customers living in fuel poverty. In our CEG report[17] we outlined:

"We challenged Cadent to demonstrate why this was the right approach especially as it is pushing against Ofgem's regulatory framework. It says that it will result in a 70% increase in the number of households helped each year, with the intention that 36,500 will be lifted out of fuel poverty over the price control period (which the FPNES did not guarantee) delivered at a £0.46m p.a. lower cost."

We understand that in its SSMD Ofgem concluded that GDNs should not be funded for installing boilers, heating systems or energy efficiency measures. However, with Covid-19 the context has significantly changed and the customer and stakeholder insight available to Ofgem has increased

[17] https://cadentgas.com/nggdwsdev/media/Downloads/about/ceg/CEG%20report/Cadent-CEG-report-with-appendices.pdf p.22

considerably. BEIS' approach to fuel poverty and the role of different parties is also evolving. It would seem perverse for the regulator not to consider this new evidence base and context.

Cadent's stakeholders expressed a preference for whole-house affordability solutions - including energy efficiency and income advice. The company has said it will endeavour to still deliver these kind of solutions while working within Ofgem's proposed framework. However, the overall level of support on consumer vulnerability will be at a significantly lower scale than was encouraged by Cadent's stakeholders and accepted by its customers.

In its draft Fuel Poverty Strategy for England, BEIS is consulting on its 'worst first' principle, which involves prioritising those in the most severe fuel poverty first, mutes the potential for households receiving multiple measures in one visit, to bring them out of fuel poverty sooner and minimise disruption to the household. BEIS highlights the importance of government prioritising approaches which provide best value for money for taxpayer funds. The same principle should be applied by Ofgem to networks and energy customers money.

We also note that Ofgem has rejected some proposals around support including for energy efficiency and debt advice/benefits checks because it does not consider that to be the networks' role. While policy on delivery of energy efficiency programmes and fuel poverty is set by government, we believe Ofgem could and should allow some discretion for the networks in this space.

As noted, Ofgem faced a difficult decision around the continuation of the FPNES scheme at a time when we need to be looking to decarbonise heat. A challenge reflected in the split views of our CEG. In the Grid Edge Policy report on electric storage heating[18], the point was made that the FPNES scheme is driving the replacement of electric storage heating when the latter may well be a more viable long-term solution in the context of net zero. Improving the energy efficiency of these properties could provide a better solution than installing gas heating and the regime would benefit from allowing some flexibility in such situations.

Indeed, in its draft Strategy government states "The Fuel Poor Network Extension Scheme is an important measure to tackle fuel poverty providing immediate support to help households switch to lower cost fuels. However in order to decarbonise heating it is likely that we will need to stop extending the existing mains gas grid and installing fossil fuel based heating during the 2020s". This does not mean that GDNs have no role to play.

BEIS draft fuel poverty strategy outlines a Fourth principle which is relevant - Designing sustainable fuel poverty policies. Under this principle, policies should be designed which benefit fuel poor households in the long term, in line with other Government priorities such as the Clean Growth Strategy, the Clean Air Strategy, and the Industrial Strategy. This principle would also contribute to international commitments such as the United Nations' Sustainable Development Goals.

Cadent customer research also indicated that people felt that network affordability support should not just be limited to those without a gas connection (this is 'unfair'). Ofgem's proposed approach, as it stands does not respond to this preference.

BEIS's draft Fuel Poverty Strategy for England states "Part of cost-effectiveness is the consideration of 'who pays'. Central Government, local authorities, health services, energy companies, and landlords must work together in progressing towards the ambitious fuel poverty target and milestones. This consultation seeks views and evidence on how these groups can work together to

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18 'An Electric Heat Pathway: Looking Beyond Heatpumps' available here.

deliver the aims of the fuel poverty strategy in a cost-effective way."[19] We do not think that Ofgem has defined GDNs role appropriately in this partnership approach..

Where there is: customer and stakeholder support, and consumer need; where the cross-subsidy remains relatively low and the benefit to communities and households high; where the network is best placed to deliver support in a way that is more timely, effective and cost efficient it does not seem appropriate for there be regulatory barriers to activity.

In its CVS Ofgem's committed to "work closer with government on policy areas that affect our role as a regulator, such as fuel poverty policy or social security. We are committed to evaluating and monitoring progress towards these outcomes". If regulatory vires are deemed to be a barrier to this more effective and popular approach, Ofgem should proactively raise this issue with BEIS.

Carbon Monoxide Awareness and Needs Identification

With regards to PCDs relating to Needs Identification and Enhanced Carbon Monoxide Awareness we refer Ofgem to our views are outlined in CEG report p.23[20] which have not changed. In addition, we highlight that Ofgem's CVS which has been updated since the SSMD was published highlights needs identification as a priority outcome required by the regulator.

London medium pressure and delivering metallic mains replacement see GDQ.34 in the Gas Distribution consultation.

Cadent Q4. Do you agree on the proposals for the CVP? If not please outline why

The CEG's detailed views on the outputs that make up Cadent's CVP are outlined in Appendix 2 of our response to Ofgem. p.95

See also Q.37 on the CVP in the Core Consultation document p.39 above. We make the following additional comments below:

It is our view that Cadent made a genuine effort to deliver a relatively ambitious plan which responded to customer and wider stakeholder priorities and reflected its new vision statement to deliver standards customers love and others aspire to. A number of its proposals were innovative, showed leadership, addressed historic problems that stepped outside of the traditional role of a GDN but which were in line with consumer and stakeholder views, and strived to deliver noteworthy improvements for customers and communities. A couple were consequently adopted as the basis of common ODIs as a result.

The CEG felt that the CVP methodology was fundamentally flawed and in particular did not agree with the mechanism to calculate rewards. Nonetheless to ensure customers do not miss out and to provide a little credit where it is due, we suggest that Ofgem:

- Considers the package of CVP proposals in the round taking into consideration customer and stakeholder views and the social return on investment (but not as a way to calculate rewards).
- Provides greater transparency around the benchmarking it has done and to demonstrate how supported and rewarded CVPs really go above and beyond good but standard practice.
- Provides some kind of nominal reward or recognition for companies who deliver on the aspirations of their CVPs at the end of RIIO-2 to provide some incentive for delivery- though not in line with the CVP rewards methodology proposed which we do not think would be

[19] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/819606/fuel-poverty-strategy-england-consultation.pdf p.23

[20] https://cadentgas.com/nggdwsdev/media/Downloads/about/ceg/CEG%20report/Cadent-CEG-report-with-appendices.pdf - See also the assessment of the CVP Appendix 2.

fair, proportionate or in line with customers willingness to pay

Cadent Q5. Do you agree with our proposals on the bespoke UMs? If not, please outline why.

Cadent proposed eleven bespoke UMs. In addition to these, Ofgem has proposed treating London Medium Pressure as a bespoke UM. Of Cadent's proposals, one bespoke UM on MOBs was accepted; three - on Connections, Diversions and Entry Charging and Access - have been turned into common UMs for all the GDNs; and two on hydrogen deployment will be managed through the set of net zero incentives. All others have been rejected. We comment on a few of the rejected UMs below.

In relation to the London Medium Pressure project, while there is a strong case for a UM due to the level of uncertainty, there is also a case for a level of upfront funding in order to allow work to commence without delay. To this end, Cadent tells us that they have re-planned the work and are providing Ofgem with the relevant information with a view to establishing an appropriate level of base funding.

In relation to the Lowestoft replacement project, we somewhat reluctantly agreed with Cadent's proposed use of a re-opener for this in our December report. This proposal has been rejected by Ofgem but we understand from Cadent that it has undertaken further work on the engineering design for this project with a view to agreeing baseline funding and a PCD for this work. We agree that this funding approach would be more appropriate (on the assumption that Ofgem agrees with the need case for the project).

In relation to Tier 2/ PAST we have commented on the proposed rejection by Ofgem of Cadent's proposals in GDQ 34. Related to this, we have also commented on Ofgem's proposals on NARMS (see Core Q12).

We have commented on Ofgem's proposals relevant to net zero in GDQs 46- 48.

Cadent Q6. Do you agree with the level of proposed NIA funding for Cadent? If not, please outline why.

Cadent has had a leading role developing the hydrogen option. However, the CEG has seen increased interest in converting areas of the gas network to carry hydrogen in the two years since we started scrutinising Cadent's business plan development.

In the UK hydrogen has become a major option in NGESO's Future Energy Scenarios and in Europe hydrogen strategies have been released by member states and by the EU as a whole. That would suggest that there is a large commercial opportunity for the supply chain to develop these techniques to meet a need for the whole industry, so it is not clear that Cadent customers should take on the risk.

If this is 'development as usual' we would agree that it can be funded under BAU. However, the CEG has challenged Cadent both to use open data to allow the supply chain to bring forward innovation and set up 'pathfinder' projects and to promote native competition. We would encourage Cadent to open data on the assets that have to be upgraded and invite other networks to do the same. In that event the necessary framework, e.g. data portals, would be potential candidates for NIA funding. We understand that Cadent plans to make further proposals for NIA funding and we look forward to seeing details of the proposals.