

Appendix 4: response to Gas Distribution annex

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1 Overview

Electricity North West Limited (ENWL) serves broadly the same customer base as two gas distribution companies, Cadent and Northern Gas Networks that operate in Electricity North West’s distribution services area. We also interface with the Gas Distribution Networks (GDNs) via a number of industry fora, particularly those convened via the Energy Networks Association. Through these channels we share best practice regarding interfacing with consumers. We have also reached out to the GDN’s in our area as part of understanding if there are any whole system opportunities arising from their plans and to identify if there are any electricity distribution related requirements (e.g. electricity connections for local gas fuelled generators). Our response focuses on those aspects where there is an overlap in approach and thinking and should be read in conjunction with Appendix 1: response to Cross-sector questions.

Our comments below relate to each of the sections of the consultation document, rather than specific questions per se. We trust this response will assist Ofgem as it develops its thinking further.

2 Meet the needs of consumers and network users

We welcome the overall package of outputs being proposed and the inclusion of measures on consumer vulnerability and the continuation of stakeholder engagement, customer satisfaction

survey, complaints metric and GSOPs. Providing a more structured approach to identifying and responding to consumer vulnerability is helpful. Our preference is for baseline funding and output measures to be set to deliver the levels of service consumers' desire and have a willingness to pay for. Additionally, some element of financial and reputational incentives could be merited because rewarding good performance stimulates companies to focus on the incentivised outcomes and funds any innovation and measures that companies need to undertake to deliver improved outcomes for consumers during the price control period.

GDNs should be developing their targets for the proposed outputs in conjunction with their customers to ensure that the standard of service they are proposing, both as a minimum level and subject to any further incentivisation, is in line with what customers are willing to pay for. The approach to this process should then be subject to challenge by the Customer Engagement Groups and the RIIO-2 Challenge Panel. As set out in our response to the Cross Sector consultation (appendix 1), we believe that these incentives should be absolute, based on a given Group or licensee's performance, and not relative.

We suggest Ofgem and the GDNs should consider initiatives that:

- 1) Enable and encourage cross-sector working to optimise identification and registration of vulnerable consumers. A 'one-stop shop' for registration of vulnerable or priority service customers is an example of such development.
- 2) Encourage delivery of solutions to consumer vulnerability where this is best delivered in partnership with other utilities and other relevant partners and support agencies.
- 3) Encourage companies to partner with organisations to provide enabling infrastructure for rural communities.

Incentives should be set mindful of Groups/multiple licence holders. Within RIIO-1 some incentives and allowances were set that paid holders of multiple licences (i.e. Groups) multiple times effectively for one initiative.

2.1 Consumer vulnerability

We agree that network companies should play an important role in helping consumers in vulnerable situations and acknowledge the work already being carried out by GDNs to support their customers. We suggest the following areas where network companies could be further involved to support the vulnerable customers they serve:

- Data sharing between utilities should be a requirement
- Helping consumers prepare for outages
- Signposting vulnerable customers to appropriate help and support as part of BAU, not just in emergencies
- Collaborating with other agencies statutorily placed to provide support to consumers with vulnerabilities.

We would like to clarify that these services should be provided, 'free at the point of use' but clearly companies will need the efficient level of funding to deliver them and be incentivised to drive performance on these during RIIO-2 through investing in innovation and pushing beyond the initial level of performance. Companies delivering more outputs in areas would still be efficient as long as this can be done at an efficient cost below consumers' willingness to pay, so uncertainty or incentive

mechanisms should allow this without the need for a reopener or consumers waiting until the next price control.

In addition, we believe there may be an appropriate role for network companies to provide customers with information relating to energy efficiency, community energy and the transition to the low carbon economy. The development of a CBA approach that considers the whole system impact of investments may determine other areas where it is appropriate for network companies to act as this is the most cost effective approach when considering the whole system implications.

2.2 Consumer vulnerability use-it-or-lose-it allowance

We agree that Option one would be the correct approach to implementing a use-it or lose-it allowance as a flexible strategy. We also agree with the assessment criteria set out.

We support the combined package of incentive and requirements, including minimum standards, which provide certainty for companies and customers alike whilst not prohibiting companies from being responsive, innovative and creative in meeting emerging and changing needs.

2.3 Fuel Poor Network Extension Scheme (FPNES)

As this mechanism is specific to the gas sector, we have no detailed comments to make. Going forward, consideration needs to be given as to how this sits within the proposals to decarbonise heat and should form part of GDNs thinking of whole system solutions to deliver the most efficient outcome for consumers in both the long and short term. The FPNES, through extending the gas network, may be increasing the value at risk of assets that are eventually stranded which needs to be considered in any decisions GDN's make to extend the gas network.

2.4 Guaranteed Standards of Performance

Guaranteed Standards of Performance are used in both electricity and gas distribution but have developed separately. They provide a minimum level of service that customers can expect which is helpful, although these could be incorporated in the licence rather than as statutory instruments going forward. Given the differences between the sectors, we believe it is appropriate that these continue to evolve separately, reflecting the needs of customers that they serve and look forward to working with customers and Ofgem on the proposals when developing ED2.

2.5 Average restoration time incentive for total unplanned interruptions

The approach to interruptions differs between electricity and gas, recognising the inherent differences between the sectors. As such, we have no response to this aspect and expect to see the approach for electricity distribution developed as part of the work on ED2.

3 Deliver an environmentally sustainable network

3.1 Decarbonisation of heat

We think there will be a role for GDNs to support the decarbonisation of heat but agree that it is currently unclear what that should be. We note Ofgem's proposal to not include a dedicated output in this area which may be appropriate given the lack of clarity about what is required. However, we would expect there to be some form of mechanism developed to allow GDNs to access funding and agree appropriate outputs in the event that there is an evolution in policy in this area. In order to avoid GDNs being unduly constrained by regulatory barriers, we suggest this may need to be wider than just Government policy to enable GDNs to respond to their customers' needs. It may be appropriate for such a mechanism to be sufficiently broad to allow GDNs to seek additional funding in the event that other drivers, such as changes to power generation or transport, result in significant changes to their customers' needs.

We support the inclusion of low and no regrets decarbonisation projects within Business Plans where this is in customers' interests meaning the projects have a positive cost benefit case and willingness to pay.

We also anticipate that GDNs will work with other licensees to develop whole system approaches to the decarbonisation of heat to ensure sustainable long-term solutions to meet the needs of customers.

3.2 Distributed Gas Connections Guide and distributed gas information strategies

We produce Distributed Generation connection guides which our customers' value. Hence we expect customers would value gas connection related information. The future of these guides should be informed by those who use them.

4 Maintain a safe and resilient network

Our response to the proposals for NARMs can be found in Appendix 1. The comments below relate to the specifics from the Gas Distribution consultation.

4.1 Repex

As a HSE requirement for the GDNs, we expect Ofgem would allow a sufficient mechanism to provide appropriate funding of this activity in an efficient and effective way.

4.2 NTS exit capacity

We have no response to make in relation to NTS exit capacity.

4.3 GDN record keeping

We have no response to make in relation to GDN record keeping.

5 Cost assessment

Evolving the approach used as part of GD1 for cost assessment for the GDNs Business Plans for GD2 is a sensible approach, particularly given the timescales that are being worked to. We are aware that work has been progressed on cost assessment for GD2. As Distribution Network Operators' have not been full participants, we do not expect this to be precedent setting for ED2.

While we are not well placed to comment on the cost categories being proposed for Gas Distribution, we do note the potential challenge where work potentially straddles two or more areas. Given the current proposals for multiple or blended sharing factors, care needs to be taken that the categorisation of costs does not create unforeseen or unintended consequences in the event that different sharing factors are applied to different cost categories.

At a high level, the principles proposed to assess appropriate cost drivers seem reasonable. However, as with many principles-based approaches, it is how these principles are used that will determine their appropriateness. To that end, we suggest further clarity on how Ofgem expects to develop and use these cost drivers would be beneficial for the licensees as they develop their Business Plans and for the User Groups and other stakeholders to be able to consider and, where appropriate, challenge the GDNs' plans. We agree with the observation that the relationship between cost drivers and network costs may change for RIIO-2 and that this needs to be borne in mind.

We understand and note the proposals to require GDNs to share their claims for regional and company specific aspects with each other and for these companies to be able to comment on each other's proposals. We recognise that some GDNs will be claiming that their fair costs are above average. However, we are unconvinced that this necessarily means that symmetrical adjustments can be made. With regional and company specific claims, licensees are setting out why their costs are likely to vary compared to national forecasted averages. Typically, these averages are across more than just gas distribution and it therefore means that it is possible that all parties could be affected. Shortage of a specific skill, for example, could result in labour costs being increased across all licensees when compared to anticipated movement in wages nationally.

We note the proposed timeline at the end of this section for the development of the Business Plan templates and observe, based on our experience, that it can be very time-consuming and challenging for Ofgem and licensees if there are significant changes between different iterations of the BPDT templates. This will be particularly so for RIIO-2 where licensees are taking iterations of their plans to the Customer Engagement Groups / User Groups prior to submission to Ofgem. We suggest that it may be beneficial to update the timeline to show these submissions to the Customer Engagement Groups / User Groups as the timing of these will impact on licensees' ability to respond to updated templates.

6 Uncertainty mechanisms

As set out in our response to the Cross Sector consultation document (Appendix 1), we believe flexibility in the price control arrangements will be essential for RIIO-2 to enable the decarbonisation of the energy system through ensuring the right whole system solutions are taken forward. With an uncertain outlook as to the needs of customers from the gas distribution networks then the price control settlement for gas distribution will need to adapt and be responsive to this increased uncertainty.

We believe that a form of uncertainty mechanism for costs associated with the rollout of smart meters is appropriate to ensure that activities to facilitate this rollout are appropriately funded.

6.1 Review of Agency (Xoserve) costs

We have no response to make in relation to Agency costs.