

CEG Update on UKPN's Initial RIIO-ED2 Business Plan

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UK Power Networks
**Customer
Engagement
Group**

CEG Update on UKPN's Initial RIIO-ED2 Business Plan

On 1 July UK Power Networks sent the first draft of its Initial RIIO-ED2 Business Plan covering the period 2023 to 2028 to Ofgem, the energy sector regulator. A summary is available on UK Power Networks' website (<https://ed2.ukpowernetworks.co.uk/>).

This is a good time for the Customer Engagement Group for UK Power Networks (the CEG <https://ceg.ukpowernetworks.co.uk/>) to update stakeholders and customers on what we have been doing since our formation in late 2019, how this has affected the development of UK Power Networks' plan and the areas on which we will continue to challenge UK Power Networks in the lead up to its submission of the Final Business Plan to Ofgem on 1 December 2021.

Context

The UK government has targeted Net Zero carbon emissions by 2050. Policy for delivering this is complex, with numerous announcements and initiatives, the most important of which are these.

- 2019 - amendment of the Climate Change Act to target net zero emissions (100%) by 2050
- December 2020 - Energy White Paper set the UK's net zero trajectory
- April 2021 – sixth Carbon Budget with a target to reduce emissions by 78% by 2035
- Prime Minister's 10 Point Plan for a green industrial revolution
- HMT's Net Zero Review
- Sector initiatives
 - Industrial Decarbonisation Strategy for a low carbon industrial sector
 - North Sea Transition Deal to support the oil and gas industry's green transition
 - Announcement ending the sale of new petrol and diesel cars and vans in 2030
 - Announcement ending the use of coal use for power generation in 2024
 - Transport Decarbonisation Plan
 - Smart Systems and Flexibility Plan
 - Heating and Building Strategy and Hydrogen Strategy – to be announced soon

Unlike the position in recent decades, when growth in demand has been steady, the transition to Net Zero will lead to a substantial increase in the use of electricity. Given the scope and complexity of Net Zero policies and the effects that the transition will have on our energy use and how we live our lives, Ofgem has provided guidance for the businesses it regulates, including electricity distribution networks like UK Power Networks, requiring them to include the implications of the Net Zero transition in their planning for 2023-2028.

The CEG's terms of reference

One of Ofgem's objectives for ED2 was to give customers a stronger voice in the review. It mandated the formation of the CEGs and said that the companies should validate their plans using the results of robust customer research and stakeholder engagement. Ofgem has described the role the CEGs should play in its Enhanced Engagement Guidance (<https://www.ofgem.gov.uk/publications/riio-ed2-enhanced-stakeholder-engagement-guidance-version-2>) and provided a set of criteria for the CEGs to consider in reviewing and challenging the company business plans.

The Customer Engagement Group has the job of challenging the CEO of UK Power Networks and his team about how well their plan reflects the needs and preferences of customers and network users. This involves scrutinising whether UK Power Networks has gone through a good process to understand these requirements and then prepared a business plan that reflects them having regard to the consequences for how customers receive and use electricity services and how much they pay for them.

Approach

The CEG was established and its members recruited by September 2019. Our work with UK Power Networks from then until April this year was as follows.

- On-boarding sessions with the UK Power Networks team – up to January 2020
- Information gathering and development of the CEG's challenge process
- Observation of UK Power Networks' stakeholder engagement and co-creation events
- CEG's baseline review - March 2020
- Review of the first draft of UK Power Networks' ED2 narrative - August 2020
- Regular meetings of the CEG's four sub-groups (see CEG website) with UK Power Networks
- Customer Working Group's Interim Report - November 2020

In addition, there have been fortnightly meetings between the Chair of the CEG and the CEO of UK Power Networks and attendance of the CEG chair at meetings of the Board of UK Power Networks to report on progress.

Review of UK Power Networks' draft ED2 business plan

In April 2021, UK Power Networks provided the CEG with the first complete draft of its business plan. The CEG reviewed this and we summarised our conclusions in a report.

CEG's review of UK Power Networks' April Draft Business Plan

Our criteria for the review came from Ofgem's ED2 Enhanced Engagement Guidance and its Business Planning Guidance. In autumn 2020, the CEG adopted a dashboard to monitor progress in relation to the completeness and quality of UKPN's responses to questions and issues the CEG had raised. We rated the expected outcome on each issue in terms of the conclusion the CEG would be likely to reach at the end of the information exchange.

UK Power Networks issued the sections and supporting documents of the plan to the CEG in three tranches between mid-March and mid-April. Members of the CEG's working groups took roles of leading, reviewing and moderating the review of each part of the DBP. The review teams collated requests to UK Power Networks for clarification and provided reports of their findings and conclusions to the CEG secretary who integrated them into the CEG's report on the April plan.

The report challenged the plan on 11 important aspects of the plan which the CEG concluded should be improved. These were as follows.

1. Priorities and approach
2. Justification of UK Power Networks' strategy
3. Stretch and ambition in the plan
4. Identifying customers' needs and preferences
5. Addressing customers' needs and preferences
6. Stakeholder engagement for the ED2 plan
7. Ongoing engagement in ED2
8. Organisational resilience
9. Commitments
10. Regional plans for UK Power Networks' three networks
11. Consistency of the plan and assurance

After UK Power Networks had considered the report, we undertook an intense and constructive process to explain, illustrate and clarify our challenges. UK Power Networks accepted the challenges as valid and began work to respond to them.

The results of this are reflected in the Initial RIIO-ED2 Business Plan that UK Power Networks sent to Ofgem on July 1. The CEG finds that this plan is significantly better than the version we saw in April.

UK Power Networks has been highly responsive to the CEG's challenges. This resulted in significant improvements with respect to all 11 challenges. As a result, the CEG rates the following aspects of UK Power Networks' July 1 plan highly.

- Adopting an approach that is in the interest of customers – the approach is demand-led and seeks to avoid limiting the uptake by customers of low carbon solutions without unnecessary increases in bills
- The proposal to create an independent Distribution System Operator from the start of ED2
- An ambitious data, flexibility and energy efficiency led programme for optimising the operation of the network that takes advantage of emerging opportunities
- Clear improvement in the execution of customer research and the use of research results in forming and justifying the business plan
- Proposals contained in the Environment Action Plan and rooted in science-based targets for reducing UK Power Networks' adverse impact on the environment
- Customer service, including service to the worst served customers and support for customers in vulnerable circumstances
- Propositions on innovation
- Customer Value Propositions
- Proposals for a social contract

This does not mean the CEG sees no scope for improvement to be made for the final business plan, to be submitted to Ofgem on December 1. On the contrary and having regard to UK Power Networks' impressive response so far, the CEG will be looking for further improvements in all areas of the business plan.

As part of this the CEG has informed UK Power Networks of continuing challenge on the following.

- Integrating the elements of the plan into a coherent and consistent whole described in a way that customers and stakeholders can understand
- More explicit commitments and customer outcomes, including how trade-offs have been made and the value to customers of its innovative proposals for the operation of the system
- More information on how, given uncertainty about how and where demand will develop, UK Power Networks will ensure it does not block or limit the scope for customers to adopt low carbon solutions
- Initiatives and engagement in the context of the whole system, which includes not only the power and gas sectors but also other sectors and customers' use of energy in industry, transport and heating
- The full exploitation of UK Power Networks' data resources and its capacity for analysing data and using the results
- Planning for the three regional networks, including the results of engagement with all local authorities and others on their Net Zero transition plans
- The extent of new proposals on competition
- Organisational resilience that will give the flexibility needed to deliver an ambitious plan, including not only the resilience of the networks, but also that of the workforce and the supply chain

As part of its core role, the CEG will continue to scrutinise the customer research and stakeholder engagement that UK Power Networks is continuing to do. We will be focusing on how UK Power Network uses the learning from its research and engagement in conjunction with other sources of intelligence and combines this with its data management and analysis expertise to justify key aspects of the plan.

The arrangements UK Power Networks is proposing for delivering the services when customers' own behaviour will be changing will have implications for the skills and resources UK Power Networks will

need if it is to be resilient and develop the culture it will need to be worthy of the trust of its customers and stakeholders. These will be key areas for the CEG to cover.

The goal posts will keep moving as policy and regulation develop and the UK seeks to keep up with the decarbonisation targets the Government has set. An example is Ofgem's recently published provisional position on Access and Forward Charging, which may result in higher demand for connections to the distribution networks and affect the business case for distributed energy resources. We will be challenging UK Power Networks' proposals for responding to decisions coming from the Government and Ofgem.

We need your input

You will see from UK Power Networks' website that it is keen to hear the views of customers, stakeholders and other interested parties as part of the continued development of its their plan. The CEG supports this approach.

Our website (<https://ceg.ukpowernetworks.co.uk/#contact>) invites you to tell us about your insights and any questions you have which will help us do a better job.

I, the other CEG members and UK Power Networks encourage you to do this.

Ann Bishop, Chair of the CEG for UK Power Networks