



# Consumer Value Proposition for the RII0-ED2 price control period

**CVP-8: Create a low carbon technology energy advisory service for consumers to provide a first-stop support service for people looking to switch to electric vehicles, heat pumps or solar PV**

# Version Control

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## 1. Summary

### **A one-stop service**

to provide advice to our customers in relation to low carbon technologies

### **Supporting 200,000 customers every year**

across RIIO-ED2 to transition towards greener sources of energy

### **CVP-8**

Create a LCT energy advisory service for consumers to provide a first-stop support service for people looking to switch to electric vehicles, heat pumps or solar PV

### **£870,000 savings for customers every year**

as a result of adoption of low carbon technologies

### **£3.1 million of benefits**

across RIIO-ED2 resulting from societal impacts



## 2. Introduction

- 2.1. In this document we highlight one of the areas where our business plan goes above and beyond in order to deliver outstanding services for our customers and/or the environment. The proposal outlined here forms part of our Consumer Value Proposition (CVP). Though we believe our core business plan is highly ambitious, comprehensive and stretching, via our CVP proposals we demonstrate where WPD is raising the bar even further for the benefit of our customers.
- 2.2. Our CVP proposals span a wide spectrum of projects covering many areas of our business: from committing to becoming a net zero company by 2028 to helping our customers reduce their carbon emissions and ensuring that no customers are left behind in accessing the opportunities of the energy system transition.
- 2.3. These proposals build upon the valuable input that we have received from our customers and stakeholders on what they value most and what they want us to deliver. Our proposals will provide tangible benefits, that we have quantified using a robust methodology. Taken together, our proposals will deliver a combined benefit to customers worth in excess of £150 million, with every proposal delivering a benefit worth at least £3 million.
- 2.4. The CVP forms part of Ofgem's Business Plan incentive (BPI), which it designed to encourage energy network companies to put forward high-quality and stretching business plans for the RII0-ED2 price control.
- 2.5. Below, we set out the detail of one of our CVP proposals: ***CVP-8: Create a low carbon technology energy advisory service for consumers to provide a first-stop support service for people looking to switch to electric vehicles, heat pumps or solar PV***

## What this Customer Value Proposition includes

- 2.6. Meeting the needs of our consumers and network users constitutes one of WPD's main areas of action. As stated in our Business Plan, we are serious about our social and environmental responsibilities. This includes our commitment to support a green recovery following the pandemic.
- 2.7. For this reason, WPD is committed to deliver this initiative to facilitate us achieving this goal. This document discusses how this proposal goes beyond our core commitments covering connections and innovation, by enabling environmental and societal benefits to our local communities.
- 2.8. The rest of the document is structured in the following sections:
  - **Section 3. Our proposal:** describing what this CVP is about and explaining how it complies with Ofgem's criteria.
  - **Section 4. Benefits generated by our proposal:** setting out how we have calculated the additional value that our proposal will deliver to customers.
  - **Section Error! Reference source not found.. Error! Reference source not found.:** explaining how this initiative addresses priorities raised by our customers.
  - **Section Error! Reference source not found.. Error! Reference source not found.:** defining what the key outputs are and what WPD proposes if outputs are not delivered.
  - **Section Error! Reference source not found.. Error! Reference source not found.:** confirming how this CVP addresses Ofgem's CVP eligibility criteria.

- **Section 8. Appendix: Joint Social Value Framework:** setting out how we, together with the other DNOs, have agreed a framework to quantify the benefits delivered by CVP proposals.

## 3. Our proposal

3.1. In this section, we will explain the following aspects of the proposal:

- Background for this initiative.
- What we are proposing.
- How our proposal delivers beyond expectations.
- Our delivery plan.

### Background

3.2. The transition to net zero will require us all to make many significant changes to the way that we heat our homes and access transport. In addition, the use of solar PV presents opportunities to offset our energy consumption by generating low carbon electricity. But these changes can involve significant investment on the part of customers.

3.3. WPD is well placed to understand the impact of this transition and what it means for our customers. We want to use our expertise to provide help and support to our customers in accessing the services and products that they need. This will both help them to make informed decisions suitable for their personal circumstances and also to facilitate the transition by removing potential barriers that may delay take up of new technologies essential to the achievement of net zero.

3.4. We are strongly committed to leading the way in the transition towards a greener, more sustainable energy system. This initiative is a clear example of this commitment. We are proposing an innovative service to support our customers in being an active part of the green revolution. This is something completely new for WPD, and we are proud to be leading the way.

### What we are proposing

3.5. This initiative is aimed to support all our customers with the transition to greener energy systems. We currently see a great deal of confusion among our customer base around the options they have available to move towards low-carbon options for heating, transport or installation of solar PV.

3.6. WPD proposes the creation of a dedicated customer support line to address this. This would consist of a one-stop shop to which any customer could reach out when considering making such a switch.

3.7. As part of this service, WPD would provide guidance to customers on what they need to know and define what action they can take. Examples of advice that we expect to provide include:

- Explaining infrastructure needed to enable installation of EV charging solutions.
- Providing options for the infrastructure or home alterations required to enable installation of heat pumps.
- Setting out the benefits associated with the uptake of EVs, heat pumps and solar panels.

3.8. Where we can, we will be able to provide further support through an internal referral to our connections team who may be able to assist with any new connection requirements. For other

matters customers will be directed towards appropriate external parties, such as a local authority, to help them take the next step.

- 3.9.** This customer advice service would build upon recognition of WPD's brand across our customer base to become the first port of call for customers to get answers to their questions on low carbon technologies (LCTs).
- 3.10.** According to the criteria set out by Ofgem in relation to the submission of Customer Value Proposition (CVP) initiatives, this initiative would sit under "*Proposals that exceed the baseline expectations set out for Environmental Action Plans.*"

## How our proposal delivers beyond expectations

### How WPD is doing something different to BAU activities

- 3.11.** Current activity underway in this space is aimed at reducing our business carbon footprint and mitigating the environmental impact arising from our business.
- 3.12.** This initiative goes beyond this by liaising with all customers through a clear, accessible one-stop service to support them in the adoption of LCTs such as solar panels, EVs and heat pumps. This is not an activity we have undertaken before.

### How WPD will go beyond RIIO-ED2 baseline expectations

- 3.13.** RIIO-ED2 business plan guidance sets out the baseline expectations for Environmental Action Plan (EAP).
- 3.14.** This proposal will help facilitate wider environmental benefits (beyond those that relate only to our EAP) by helping our customers transition to new LCTs in a timely manner which may not happen as rapidly otherwise. We consider these actions to be go above and beyond baseline expectations as we are seeking to actively assist consumers outside of our core functions in making informed decisions that can help the delivery of net zero and allow our customers to make the changes they need to in an economic and efficient way.
- 3.15.** This means that WPD will be proactively providing advice to consumers requiring assistance in the adoption of domestic LCTs rather than simply making general information available or by responding to connections requests. By extending the reach of our activities beyond usual and expected channels we hope to have a greater positive influence on energy transition and the ability of our customers to participate in it.

## Our delivery plan

- 3.16.** WPD has a clear vision and plan to deliver this CVP. As part of the delivery we are targeting the following items:
- Number of customers contacted: 200,000 customers every year.
  - Financial savings to customers resulting from the advice taken vs baseline, i.e. baseline being scenario where no advice is provided: £869,000 a year of overall customer benefit.
  - Customer review ratings overall score in line with WPD's results in Ofgem's Broad Measure of Customer Satisfaction.



- 3.17.** We would be dedicating an annual budget of £200,000 to deliver this support service.
- 3.18.** This initiative would start from Year 1 of RIIO-ED2, i.e. in 2023, and would span all five years of the regulatory period.
- 3.19.** A team of around 5 people will be trained to be able to provide this specific advice. Since we expect this type of information to change quickly, we will put in place training programmes to ensure our staff is skilled to the highest standard to provide the right advice.

## 4. Benefits generated by our proposal

### Results of quantification

#### 5 and 10-year results

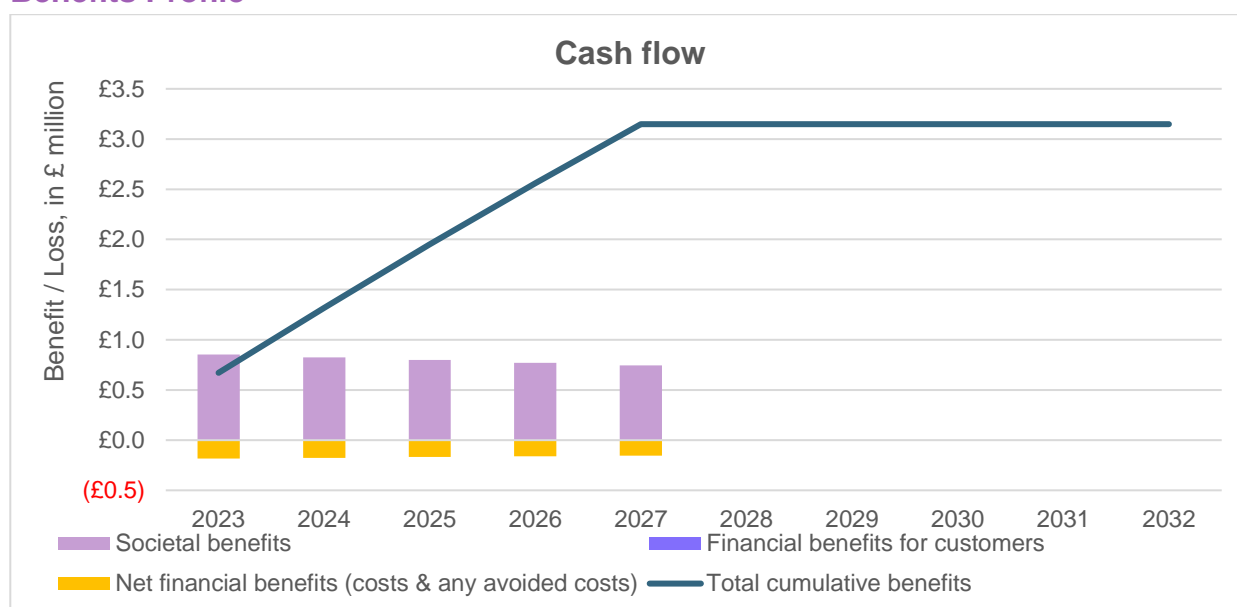
4.1. In line with the joint social value framework, agreed with the five other DNOs and shared with Ofgem in 2020, we have modelled the benefits of this CVP over both a 5 and 10-year appraisal period. More detail on the joint social value framework can be found in Section 8.

4.2. The table below provides the following results from our analysis:

- **Total cost:** The total cost of the proposal, in 2020/21 prices (in line with Ofgem's CBA templates).<sup>1</sup>
- **Total gross present value:** The total value generated by the proposal across financial, environmental, and societal benefits – discounted to present values.
- **NPV – Net present value:** The total value generated by the proposal, net of all costs – again discounted to present values.
- **SROI – Social return on investment:** The £s of benefit achieved for every £ spent

	5-years	10-years
Total cost	£845,050.12	£845,050.12
Total gross present value	£3,992,885.66	£3,992,885.66
NPV	<b>£3,147,835.54</b>	<b>£3,147,835.54</b>
SROI	£3.73	£3.73

#### Benefits Profile



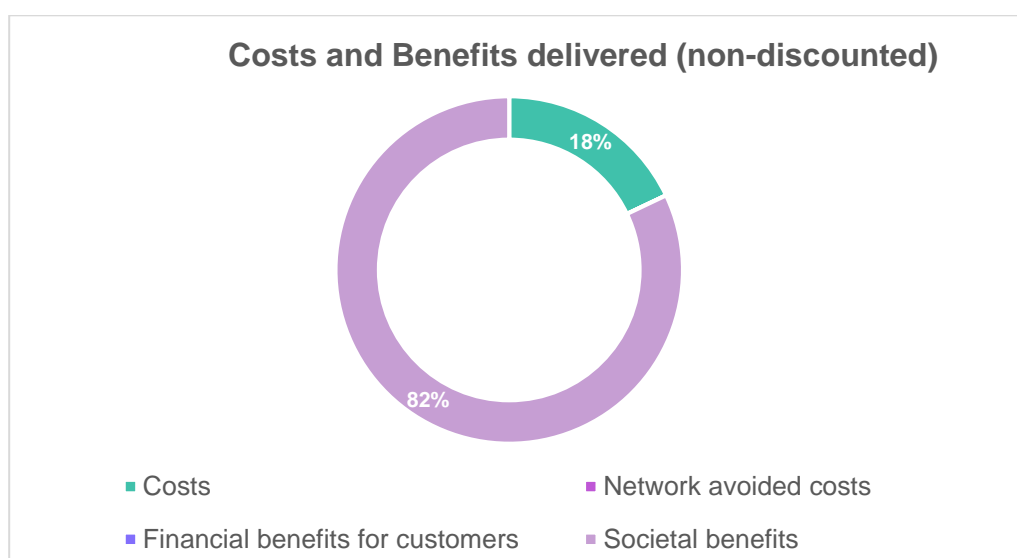
<sup>1</sup> As per the discounting applied to all costs and benefits, this figure shows the present value of costs in 2020/21 prices. The values described in the costs section below are expressed in nominal values, i.e. the actual £ prices. For this CVP, the total undiscounted cost is £1 million.

## Breakdown of Benefits

- 4.3. Societal Benefits.** Based on WTP research around the value that customers place to have such a service available for customers.

## Distributional impact

- 4.4.** In line with the breakdown above, this CVP delivers benefits to:
- All customers in WPD's network, which will benefit from access to an advisory service for low-carbon technologies.
- 4.5.** The chart below visualises this distribution, demonstrating the scale of costs and benefits that fall in each category.



## Approach to quantifying

### Costs

- 4.6.** WPD plans to spend £200,000 per year in this activity.

### Number of stakeholders

- 4.7.** Given that a Willingness to Pay (WTP) value was used, the total amount of stakeholders to model is 8 million.

## Approach to Quantifying Societal Benefits

### Calculations and Assumptions

- A median WTP value of £0.44 at average annual electricity bill was obtained as part of the October 2020 research for the following attribute: “Communicate the benefits/costs of LCTs to help customers switch”.
- Given that a number of customers supported was not included in the October 2020 research, we have used an estimate of 40% of the PSR register per year as per the attribute: “Support PSR customers (LCT, smart meters)” measured in the May 2021 research.
- Given that the current PSR register has approximately 2 million customers, to obtain the full benefit of the WTP value, WPD would have to target 800,000 customers per year. To obtain at least £3 million, WPD would have to engage with 25% of this number, which equals to 200,000 customers.

### Calculation Factors

- Success: 25%, as explained above.
- Drop off: 0%, since benefits will continue for the period.
- Attribution: 0%, since the initiative will be funded and delivered by WPD.
- Deadweight: 0%, since the benefits wouldn't be achieved without WPD's activity.
- Optimism Bias: 5%, since combining two sources of WTP value.

### Sources

- WTP values: Accent and PJM Economics, WTP Final Report, October 2020 & Accent and PJM Economics, Western Power Distribution RIIO-ED2 WTP, May 2021.

## Social Value – Next steps

- 4.8.** The results shown in this document represent the best estimates of the benefits that will be achieved through this CVP at this time. In preparation for the final submission, we will review and share these results internally to determine if any changes need to be made to strengthen our benefit calculations. The next steps in social value analysis include:
- **Tracking against plan:** As delivery plans are finalised, we will ensure that the benefits modelled are tracking against the most up to date plans.
  - **Testing assumptions:** Socialise the benefits modelled internally to ensure that assumptions used are still valid and reasonable as more specific planning takes place.
  - **Update values:** Where required and possible, find better estimates for values used in initial benefit modelling.
    - Bespoke research will be done to obtain a WTP value for the specific service to be delivered by this CVP, to avoid using values from two separate attributes in different research stages.

## 5. Stakeholder support

### Feedback from stakeholders

- 5.1. We have engaged closely with stakeholders throughout the development of our business plan to make sure their needs and preferences are reflected. We set out in Supplementary Annex 3: *Giving customers a stronger voice - Enhanced engagement* and Supplementary Annex 4: *Our commitments* how we have engaged with stakeholders and how this has helped to shape the plan. The specific feedback we received from stakeholders that is relevant to this proposal is set out below.
- 5.2. As part of our engagement in developing the business plan, stakeholders have emphasised the importance of WPD taking steps to help customers to decarbonise their lives and reduce household total energy costs. This indicates that we have strong support for this proposal.
- 5.3. We also found support for WPD leading the way in this area in terms of innovation and it was taken as a given that the company should collaborate with stakeholders to do this. It is important for us to support the low carbon aspirations of customers and this proposal aims to make it as easy as possible for them to adopt new technologies and participate in new services (such as flexibility). Stakeholders considered that the benefits of innovation in terms of cost savings for customers should be demonstrated and encouraged to facilitate the uptake of LCTs.

### Supporting our Business Plan

- 5.4. As set out in our Business Plan for RIIO-ED2, we are committed to delivering an environmentally sustainable network. This initiative relates to the following core commitments made in our plan.

#### Delivering an environmentally sustainable network

<b>Core Commitment</b> 43	<i>Create a low carbon technology energy advisory service for customers, providing a support service for people looking to switch to electric vehicles, heat pumps or solar PV.</i>
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## 6. Accountability for delivery

### What WPD proposes if outputs are not delivered

- 6.1. We are committed to delivering this proposal to support the green recovery, proactively engaging with our customers to so the benefits set out above can be realised. We intend to make sure that the scheme is a success, including through taking actions such as ensuring our staff are appropriately trained and supported in delivering the service, and that customers are given the right advice and support based on their individual needs.
- 6.2. If for any reason we are unable to deliver our commitment to create a LCT energy advisory as described above, we propose to:
  - Return a proportionate amount of any associated CVP reward under the business plan incentive to ensure that consumers do not pay for something that they have not received; and
  - Help our customers access the information they need in other ways to ensure that they are well placed to make the right choices about switching to LCTs.
- 6.3. We intend to engage with Ofgem to discuss how this may best be implemented in RIIO-ED2.



## 7. Eligibility checklist

Item	Description
<b>Relevant CVP area</b> (as per <i>Ofgem's RIIO-ED2 Business Plan Guidance</i> )	<ul style="list-style-type: none"> <li>Proposals that exceed the baseline expectations set out for Environmental Action Plans (EAPs).</li> </ul>
<b>Does this proposal entail new activities vs RIIO-ED1?</b>	<p>✓ <b>Yes</b> – see section 3</p> <p>This is not an activity we have undertaken before.</p>
<b>Does this proposal go beyond BAU activities?</b>	<p>✓ <b>Yes</b> – see section 3, from paragraph <b>Error! Reference source not found.</b></p> <p>Our current activities in this area are aimed at reducing WPD's business carbon footprint and to mitigate the environmental impact derived from our business activities, but do not include by liaising with all customers through a clear, accessible one-stop service to support them in the adoption of LCTs.</p>
<b>Does this proposal exceed RIIO-ED2's baseline expectations?</b>	<p>✓ <b>Yes</b> – see section 3, from paragraph 3.13</p> <ul style="list-style-type: none"> <li>Whilst it does not affect the direct environmental impact of WPD's own activities, it will help facilitate wider environmental benefits by helping our customers transition to new LCTs in a timely manner which may not happen as rapidly otherwise.</li> <li>We consider these actions to be go above and beyond baseline expectations as we are seeking to actively assist consumers outside of our core functions in making informed decisions that can help the delivery of net zero and allow our customers to make the changes they need to in an economic and efficient way.</li> </ul>
<b>What additional value does this proposal provide to customers?</b>	<p>✓ <b>Meets Ofgem's criteria</b> – above £3 million threshold of net benefits.</p> <p>In particular, this CVP proposal brings £3.1 million of additional value to customers over a 5-year period – see section 4 for full detailed explanation.</p>

## 8. Appendix: Joint Social Value Framework

- 8.1. During working groups in early 2020, all six DNOs, alongside Ofgem and key consumer groups discussed the (quantitative) measurement of social value, and the Customer Value Proposition (CVP) as part of the business plan incentive.
- 8.2. Under GD2, the four GDNs used different methodologies, values and reporting structures which led to results that are hard to compare. To prepare for the RIIO-ED2 CVP process, and for changes to the SECV incentive, DNOs decided to develop a common approach to measuring social value a consistent mechanism that would allow for straightforward assessment and comparison.
- 8.3. To meet the DNOs' and Ofgem's requirements, the common approach needed to:
- Provide robust, consistent measurement of all social benefits DNOs deliver through their services.
  - Deliver a framework for DNOs to measure their CVP values in 2021.
  - Act as an ongoing solution – a framework applicable for the full RIIO-ED2 period.
  - Drive innovation and ambition in the social value space.
- 8.4. To deliver against this need, the joint social value framework was created. In line with the Spackman approach, the Treasury's Green Book, the framework provides a structure through which the DNOs will deliver values that are consistent, comparable, and conservative. The framework includes:
- Standard values (from a DNO-specific proxy bank).
  - Data quality guidelines.
  - A set calculation template.
  - Common figures that should be reported (as seen in **Section 4**).
- 8.5. This framework was tested throughout its development, agreed with consumer bodies and shared with Ofgem in December 2020 – with the framework referenced in Ofgem's business plan guidance.
- 8.6. WPD has had the framework independently applied to each of their CVP proposals, ensuring that appropriate values and assumptions are applied. This provides confidence that the values presented in this document are a conservative estimate of the value generated.



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