WESTERN POWER DISTRIBUTION

Serving the Midlands, South West and Wales

Session 2:

The RIIO-ED2 price control framework

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THE AIM OF THIS SESSION:
WHAT CUSTOMERS WANT AND VALUE

In the context of a brief explanation of Ofgem's intended framework, we will cover:

▪ **What are the *outcomes* that matter most to you?**

▪ **How can we structure the *outputs* we will deliver to achieve these *outcomes*?**

▪ **How can we deliver value to our customers?**

Drawing a clear distinction:

Outcome = The impact/benefit stakeholders can expect to see

Output = Specific commitments setting out how these will be delivered

THE KEY FEATURES OF THE CURRENT RIIO-ED1 BUSINESS PLAN

- It covers an 8 year period, 2015-2023 (RIIO-ED2 will reduce to a 5 year settlement)

- Overall we are investing £7.1 billion in core distribution activities

- There are **six output categories**:

SAFETY	RELIABILITY	ENVIRONMENT	CONNECTIONS	CUSTOMER SATISFACTION	SOCIAL OBLIGATIONS

- Within which we committed to **28 outcomes**. For example:

Reduce the number of accidents	Deliver continual improvement in network performance	Reduce the carbon footprint of the business	Provide a fast and efficient connections service	Deliver excellent customer service	Improve services for customers in vulnerable situations

- Achieved by delivering **76 outputs**. For example:

(4) Reduce our overall accident frequency rate by 10%	(11) Deliver 16% fewer power cuts and restore electricity supplies 23% quicker	(28) Reduce waste sent to landfill by 20% in the first two years of RIIO-ED1 and 5% p/a thereafter	(34) Improve the overall time taken to deliver a connection by 20%.	(44) Be the top-performing DNO group in Ofgem's Broad Measure of Customer Satisfaction	(67) Contact all customers who depend on a power supply for medical reasons every three hours during power cuts

RIIO-ED1 - HOW WE ARE DOING

Ofgem's latest annual report:		Safety	Reliability	Connections	Customer satisfaction	Social obligations	Environment* (carbon footprint reduction)
WPD	*W. Mids*	🟩	🟩	🟩	🟩	🟩	**-17%**
	E. Mids	🟩	🟩	🟩	🟩	🟩	**-8%**
	S. Wales	🟩	🟩	🟩	🟩	🟩	**-10%**
	S.West	🟩	🟩	🟩	🟩	🟩	**-15%**
Electricity North West	*N. West*	🟩	🟩	🟩	🟩	🟩	-9%
SSE	*N. Scotland*	🟩	🟩	🟩	🟩	🟩	-28%
	Southern	🟩	🟩	🟧	🟩	🟩	-7%
Northern PowerGrid	*North East*	🟩	🟩	🟧	🟩	🟩	+59%
	Yorkshire	🟩	🟩	🟧	🟩	🟩	+10%
UK Power Networks	*London*	🟩	🟩	🟧	🟩	🟩	0%
	East	🟩	🟩	🟧	🟩	🟩	-9%
	South East	🟩	🟩	🟧	🟩	🟩	8%
Scottish Power	*S. Scotland*	🟩	🟩	🟧	🟩	🟩	1%
	N. Wales	🟩	🟧	🟧	🟩	🟩	23%

- **In 2017/18 WPD met all of our 76 outputs as follows:**
  - 64 ✔ Yearly output met
  - 12 ✔ On track for achievement in RIIO-ED1
  - 0 ✘ Missed target

* Ofgem did not assign a traffic light indicator for 'Environment' overall, because it is not directly comparable across all DNOs – each committed to different environmental targets and started from different baseline. However, Ofgem published business carbon footprint reductions, which are displayed in the table above

1. OUTCOMES:
NOTABLE CHANGES FOR RIIO-ED2

- In ED1 there are currently 6 categories, under which WPD's 76 commitments are structured

- Ofgem is proposing to consolidate _outcomes_ into three categories (applicable cross-sector) to make them "*as intuitive and simple as possible, reducing overlap and potential confusion*":

Meet the needs of consumers and network users:
Network companies must deliver a high quality and reliable service to all network users and consumers, including those that are in vulnerable situations

Maintain a safe and resilient network:
Network companies must deliver a safe and resilient network that is efficient and responsive to change

Deliver an environmentally sustainable network:
Network companies must manage the impact of their activities on the environment and enable the transition towards a smart, flexible, low cost and low carbon energy system for all consumers and network users

1. OUTCOMES:
WHAT OUTCOMES WOULD YOU LIKE US TO ACHIEVE IN RIIO2 (2023+)?

- WPD's absolute priority is to:
  - Deliver clear benefits for customers
  - Ensure customers know what they are getting for their money and trust that WPD is providing the highest levels of service quality possible

- Last year we asked you to identify strategic outcomes you expect WPD to deliver. They were:

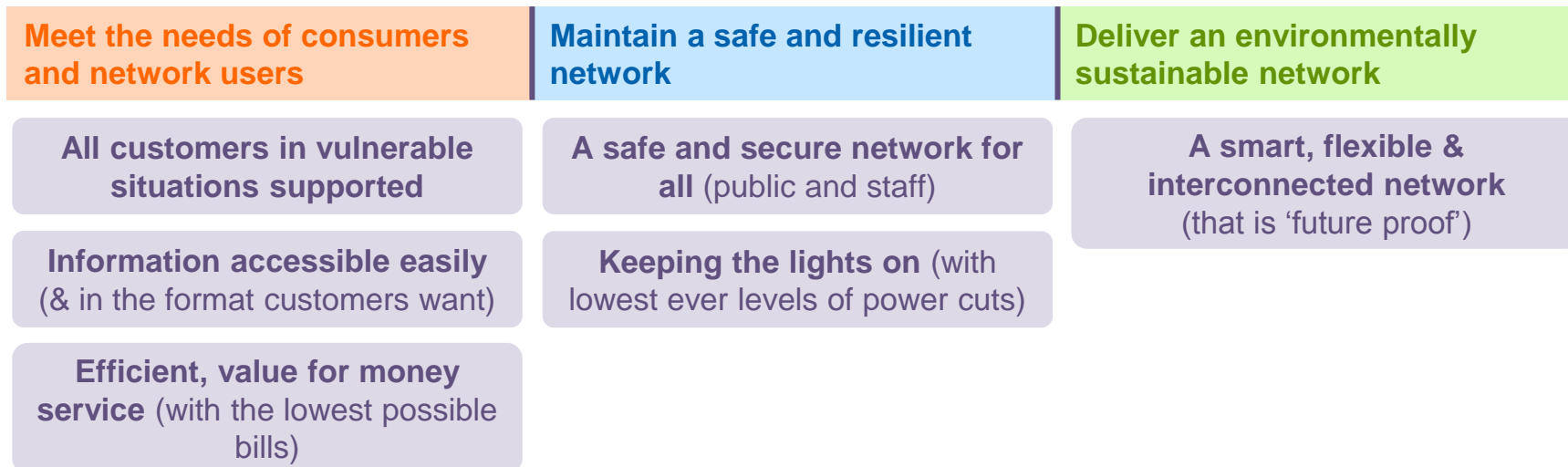|		
Keeping the lights on (with lowest ever levels of power cuts)	**A smart, flexible & interconnected network** (that is 'future proof')	**Information accessible easily** (and in the format customers want)
A safe and secure network for all (public and staff)	**All customers in vulnerable situations supported**	**Efficient, value for money service** (with the lowest possible bills)

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1. OUTCOMES: *QUESTIONS*

WPD needs to communicate in a way that helps stakeholders to understand what we commit to deliver:

- **Are WPD's six strategic outcomes still appropriate – are there any missing?**

- **Do you agree with how we propose to structure our strategic outcomes under Ofgem's new categories?**

Meet the needs of consumers and network users	Maintain a safe and resilient network	Deliver an environmentally sustainable network
All customers in vulnerable situations supported	A safe and secure network for all (public and staff)	A smart, flexible & interconnected network (that is 'future proof')
Information accessible easily (& in the format customers want)	Keeping the lights on (with lowest ever levels of power cuts)	
Efficient, value for money service (with the lowest possible bills)		

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2. STRUCTURING OUR OUTPUTS: *OFGEM'S FRAMEWORK*

- Within each of the three categories, Ofgem has defined three types of output:

Licence Obligation (LO)

- Minimum standards for all companies
- Failure to meet could lead to penalties or enforcement action

Price Control Deliverable (PCD)

- Specific deliverables with explicit, ring-fenced funding levels attached. E.g:
  – Large one-off capital projects (with stated specification, budget or timing)
  – Commitments associated with baseline funding

e.g. Tree trimming programme – Xkm length at X unit cost to deliver

Output Delivery Incentive (ODI)

- Where service improvement (beyond minimum standards) is in the interest of consumers. Will include:
  – Reputational incentives
  – Financial incentives – rewards or penalties
- To be common for companies across the sector

e.g. Network performance – targets for power cut duration & frequency (Better = reward; Worse = penalty)

Note: Companies will be allowed to propose bespoke PCDs and ODIs (developed with stakeholders)

2. STRUCTURING OUR OUTPUTS: *THE CHALLENGE*

- We want to ensure we structure the Business Plan so it is clear and understandable for customers

- A number of WPD's existing 76 outputs (and future outputs of this style) don't naturally fit in Ofgem's new proposed structure:

  - Some do:

Current category	Current commitment
Reliability	Guaranteed standards of performance
	Install flood protection at substations
	Reduce the average frequency and duration of power cuts

→ **Licence Obligation (LO)**

→ **Price Control Deliverable (PCD)**

→ **Output Delivery Incentive (ODI)**

  - Some do not: **Do these types of output still work for you?**

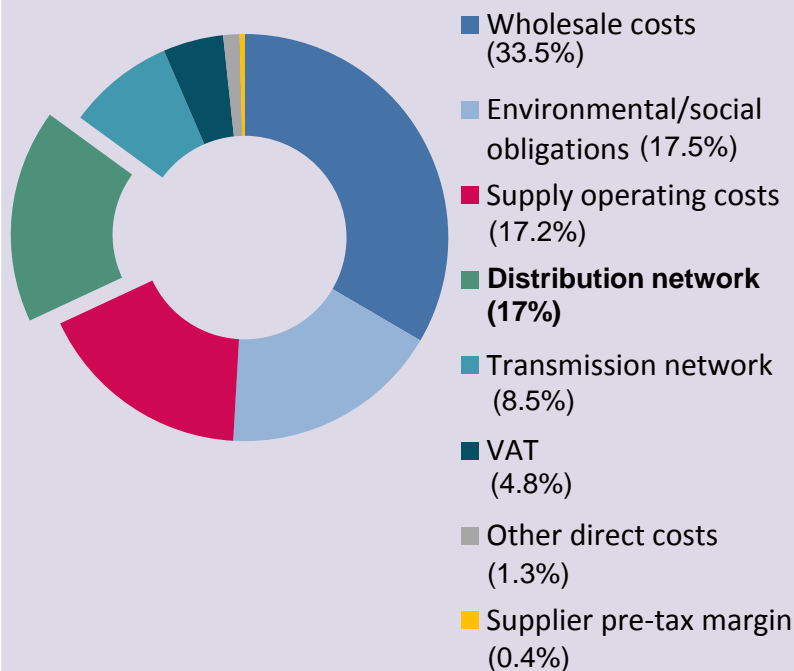| Current category	Current commitment	
Social obligations	Contact vulnerable customers on the Priority Service Register every two years to keep records up to date *(this goes beyond a basic licence obligation to hold a PSR)*	
Safety	Reduce accident frequency rate	
Customer	Be the number one DNO for customer service	Resolve 70% complaints on day one
	(Although there would likely be a ODI to overall "measure customer satisfaction")	
Environment	Ensure all replacement vehicles have lower CO_2 emissions than those they replace	
Connections	Improve the online connection applications process	

?

26

2. STRUCTURING OUR OUTPUTS:
OPTIONS FOR DISCUSSION

- *Question:* **Do we:**

  A. **Limit our outputs solely to those that fit in the three types of output set by Ofgem**

  B. **First develop outputs in the three types of output. Then allow stakeholders to suggest additional commitments that are so important they should be voluntary PCDs or ODIs**

  C. **Develop a pool of outputs stakeholders want us to deliver. <u>WPD</u> will then:**
     - Fit those that can, within Ofgem's 3 output types
     - Discuss with stakeholders which are so important they should be considered as proposed/voluntary PCDs or ODIs
     - Deliver the remaining outputs as wider commitments to stakeholders:

Meet the needs of consumers and network users			Maintain a safe and resilient network			Deliver an environmentally sustainable network		
Licence Obligations	Price Control Deliverable	Output Delivery Incentive	Licence Obligations	Price Control Deliverable	Output Delivery Incentive	Licence Obligations	Price Control Deliverable	Output Delivery Incentive
Wider commitments			Wider commitments			Wider commitments		

3. DELIVERING VALUE FOR MONEY

Average GB domestic electricity bill: £577 per year

- Wholesale costs (33.5%)
- Environmental/social obligations (17.5%)
- Supply operating costs (17.2%)
- **Distribution network (17%)**
- Transmission network (8.5%)
- VAT (4.8%)
- Other direct costs (1.3%)
- Supplier pre-tax margin (0.4%)

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£8.17 per month (or 27p a day)

In 2017/18:

- *Total expenditure:* **£941.8m**

- *Network reliability:* **99.995%**

- *Return on Regulatory Equity:* **6.3%** *(returns to shareholders)*

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3. DELIVERING VALUE FOR MONEY
A BACKDROP YOU MIGHT HAVE SEEN

THE Sun SAYS

Light fingered

IT is shocking that fat cat energy firms are trousering such staggering profits at the expense of hard-working families.

We reveal today that the ten firms who link gas and electricity to our homes pocket £96 as pure profit from the average family household's yearly bill.

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Utilities

Energy networks' £7.5bn windfall 'should be returned to consumers'

Firms that transmit electricity and gas, such as National Grid, have 'eye-watering' profit margins, says Citizen's Advice

≡ **FINANCIAL TIMES** *my*FT

Network companies under scrutiny for rising UK electricity prices

Helm review calls for price control shake-up and rethink of National Grid role

Money had been taken out of network companies through 'dividends, special dividends and share buybacks'. Helm review claimed © PA

🐦 f in ⊓ Save

Nathalie Thomas, Energy Correspondent OCTOBER 26, 2017   ▢ 8 🖶

A review into rising UK energy costs has focused scrutiny on the ownership and regulation of electricity networks — the large monopoly companies that distribute power and have been partly blamed for pushing up bills.

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3. DELIVERING VALUE FOR MONEY
WHAT YOU GET FROM WPD

What factors do you think count towards value for money?

Here's some of the ones we consider:

- **For 27p a day, in 2017/18 WPD customers received:**

  - **Highest customer satisfaction in the industry** – *7th consecutive year*

  - **Number one for stakeholder engagement** – *7th consecutive year*

  - **Better than target network performance** – *on average customers have a power cut once in 2 years, for 26 minutes*

  - **Better than target for connection time to quote and time to connect** – *small schemes get a quote in 8 days and connected in 42 days*

  - **Transition to a Distribution System Operator underway**

  - **Supported 15,229 fuel poor customers to save over £5.4 million a year**

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TABLE DISCUSSION

DELIVERING VALUE FOR MONEY

1. Were you aware of WPD's costs? How can we make our costs clearer to customers and demonstrate what our network delivers?

OUTCOMES

2. Are WPD's six strategic outcomes still appropriate – are there any missing?

3. Do you agree with how we propose to structure our strategic outcomes under Ofgem's new categories?

STRUCTURING OUR OUTPUTS

4. Ofgem have set three types of output. How should we present the commitments we make to you as stakeholders?

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In terms of structuring outputs within our Business Plan, which approach do you most favour?
(select one option)

1. Limit our outputs solely to those that fit in the three output types set by Ofgem

2. First develop outputs in the three types of output. Then allow stakeholders to suggest additional commitments that are so important they should be voluntary PCDs or ODIs

3. Develop a pool of outputs stakeholders want us to deliver. WPD will structure these within Ofgem's framework – promising to deliver any that don't fit as "wider commitments"

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ELECTRONIC VOTE 2:

On a scale of 1-10, how aware were you of WPD's costs and the levels of services we deliver?

1
Not aware

10
Excellent understanding

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ELECTRONIC VOTE 3:

On a scale of 1-10, how do you feel about the following statement?

"WPD delivers good value for money"

1 ———————————————————— **10**

Strongly disagree **Strongly agree**