

CEG @ WPD Final report on:

WPD's "Our Business Plan 2023-2028 Final Submission (Dec 2021)"

January 2022

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Foreword by Duncan McCombie, CEG @ WPD Chair – January 2022

The CEG @ WPD¹ (Customer Engagement Group, “the CEG”) was set up in March 2019 to provide independent scrutiny of the business plan produced by Western Power Distribution (“WPD”) during the RIIO-ED2² regulatory price control process. Stakeholder engagement is a core element of RIIO-ED2. By stakeholders we mean individuals, organisations or communities that are impacted by the activities of the network companies. This includes existing and future consumers. We want the company to respond to changes in how its network is used and this requires an understanding of stakeholder needs to be at the heart of the way WPD runs its business.

This report is the culmination of that scrutiny, challenge and close inspection of the elements required by Ofgem of both the company’s final business plan and, crucially, the make-up and evolution of the evidence, consideration, ambition and decisions to get to the final plan.

The CEG is independent from both WPD and from Ofgem and provided robust challenge to WPD’s proposals, helping those who rely on the service provided by the company, specifically the company’s bill paying customers and stakeholders, understand the extent to which its plans reflect and will meet their current and future needs in a rapidly evolving sector. We aim to ensure WPD’s proposals have been carefully considered, are well-justified, deliver the required impacts and represent fair value for customers.

RIIO-ED2 comes at a critical time for the energy sector. The distribution companies have a key role to play in supporting the transition to net zero, which must be significantly progressed during ED2. At the same time, affordability challenges have come to the fore, with huge increases in customer bills expected as a result of wholesale market impacts and retail supplier failures. Making the necessary investments on the path to net zero and remaining resilient in keeping the lights on, whilst delivering value for money through ongoing efficiency improvements, is a formidable challenge that ED2 must meet.

The CEG’s report is aligned with a consistent format agreed with Ofgem, to support a transparent and robust consideration of our findings against the extensive documentation submitted by WPD. The report clarity is supported by the factual approach, setting out where we agreed with the proposals and where we believe gaps remain. Our opinions and findings have evolved over 34 months as we have reviewed the information provided; sought to navigate the ‘golden thread’ of research findings through to the proposed outputs; raised clarifications and challenges where required and explored the ambition of the company. We have not always agreed, but an approach of openness with the business has ensured our position has been clear and unambiguous throughout, and WPD has always responded positively and consistently to our need for more detail or information.

Other CEGs will have taken their own approach, and we note this may mean different distribution network operators (“DNOs”) are assessed differently by their CEGs; we have not considered the plans of other companies, or the methodologies used by other CEGs, though we have engaged with the other CEG Chairs on our approach.

We represent a cross-section of the energy industry and beyond, bringing individual expertise and experience across a broad range of energy and customer issues, including energy system transition, price controls, local government, regulation, vulnerable customers, the environment and traditional and non-traditional business models. WPD established the group’s membership carefully, to ensure appropriate coverage of all the topics within the plan, and ensuring each member represented more than one key area of expertise, allowing diversity of thought and ensuring robust and considered challenges were raised.

¹ [CEG @ WPD website](#)

² [Electricity Distribution Price Control period 2](#), covering 1 April 2023 to 31 March 2028

With the wealth of experience and coverage, the CEG set out to ensure the governance adopted in both the main CEG meetings and the subject specific subgroups focussed on the work undertaken by WPD: the methodology was sound: the data and evidence was rigorously gathered: it was credibly interpreted and then positively assured.

We have developed our own criteria for what constitutes 'well-justified'³ and have applied these standards in our assessment of WPD's plan. This has supported an alignment with Ofgem's RIIO-ED2 Business Plan Guidance⁴.

WPD has made noteworthy progress in its approach to the creation of its final business plan since the CEG was created in March 2019. We have seen the company evolve its process of capturing customer and stakeholder input to better reflect their needs and expectations. During this period, we have also been clear about our position on the draft plans the company has published, both with the company and through our website^{5 6} more publicly.

We have taken the role as CEG members seriously and through the feedback we have received to date from WPD, the Challenge Group and Ofgem, our activity has resulted in a better final business plan.



Duncan McCombie, Chair CEG @ WPD

16 January 2022

³ Annex 2, well-justified criteria

⁴ [RIIO-ED2 Business Plan Guidance](#)

⁵ See our [open letter 22 February 2021](#) and [open letter 24 May 2021](#) for evidence of how we have publicly sought to influence WPD

⁶ [CEG @ WPD report to the RIIO-ED2 Challenge Group](#), July 2021

1. Chapter one: Executive summary

1.1. Overall assessment of WPD's business plan

- 1.1.1. WPD's Business Plan 2023 – 2028 Final Submission December 2021⁷ (“the business plan”, or “the plan”) is significantly improved compared to previous drafts, and we see evidence of the company having listened to and acted on the CEG's feedback over the past 34 months. WPD's justification of commitments central to its role as a DNO is improved, and the company has provided a clearer, more ambitious vision in areas such as net zero, and improved the presentation of its plan and related strategies. WPD's extensive engagement and consultation should be welcomed by Ofgem.
- 1.1.2. WPD's strong performance in ED1⁸ gives the CEG confidence it is capable of meeting the commitments it makes in its plan.
- 1.1.3. There are a number of areas we suggest Ofgem needs to consider in the coming months, including:
- ensuring the regulatory framework supports a step change in the transition to net zero, for example providing sufficiently material incentives to ensure WPD performs well in bringing on low carbon technologies and ensuring uncertainty mechanisms do not cause delay;
 - a full assessment of WPD's efficiency through benchmarking, taking account of the fact that customers value WPD's higher service levels;
 - in particular, we highlight that WPD does not always demonstrate that the benefits from improvement initiatives in areas such as digitalisation outweigh the costs. Rather than just rejecting these initiatives (several of which we think would be justified on a full analysis), we consider that Ofgem should ensure the full benefits are captured for customers so as to avoid the risk that customers pay the full costs but only get some of the benefits;
 - where discretionary spend is supported, more effective mechanisms to ensure WPD is held accountable such as an undertaking to return funds to customers if the reputational commitments are not met;
 - a consistent regulatory approach to business carbon footprint, such as a common approach on whether to fund offsetting activities;
 - stress testing WPD's ability to ramp up activity if low carbon connections come forward faster than WPD's best case scenario;
 - a clearer link between company performance and the returns to shareholders (dividend policy) and management rewards, and consideration of mitigating actions if financial performance deteriorates to avoid this becoming a barrier to progress towards net zero;
 - an appropriate, industry-wide, methodology for the clear and consistent presentation of bill impact for customers, and consideration of all the options available to improve affordability, including capitalisation policy.

⁷ [Our Business Plan 2023 – 2028 Final Submission December 2021](#)

⁸ The current [distribution price control](#), which covers 2015 to 2023

1.2. WPD's justification of its business plan

- 1.2.1. The CEG is pleased to see WPD has significantly improved the justification of its plan since the draft submission in July 2021, based on our assessment of the plan against our own criteria for well-justified plans⁹, and has developed a new supplementary annex¹⁰ to its plan as a result.
- 1.2.2. The justification for commitments which relate to its role as a DNO are stronger than for optional activities such as the six proposed customer value propositions ("CVPs"). We applaud WPD for its intentions in proposing the initiatives flagged as possible CVPs, and see merit in the underlying commitments, particularly in CVP-1¹¹ and CVP-5¹² which with further work could be worthy of reward. In the CEG's view, none of the other four CVP proposals as submitted in the business plan is sufficiently well-justified to convince us that customers should pay more for them via a CVP reward. The activities associated with CVP-2¹³ and CVP-3¹⁴ are important to the delivery of aspects of WPD's plan and should remain as commitments, but this does not in itself justify the claim for CVP rewards. We note that customer acceptability of the cost of CVPs is lower than for the plan as a whole.
- 1.2.3. The CEG welcomes WPD's rationalisation of the number of core commitments from 67 in the initial plan in January 2021 to 42 in the final version. Some commitments focus on the actions WPD will take rather than a measurable outcome or benefit for customers and consequently lack ambition. The majority of the commitments WPD is making are backed by reputational incentives only (see 3.3.1.) and whilst we recognise that this is a feature of the regulatory framework for lower value proposals, it creates a potentially significant risk for customers if funding is granted and services are not delivered. This is particularly important for activities supporting low carbon, where initial volumes may be low, but the consequences of failure could be high.

1.3. Stakeholder and customer engagement

- 1.3.1. The programme of engagement undertaken by WPD for RIIO-ED2¹⁵ has been extensive and represents a marked increase on that undertaken for ED1 in terms of stakeholders and customers engaged, and in the depth and breadth of coverage. Customer acceptability of the overall plan is high, but not utility sector-leading¹⁶, at 80%, and affordability is reported to be 68%, reflecting customers' current real-life concerns over energy bills. We note in some areas customers were asked to comment on subjects outside their expertise, and in our view WPD's approach to seeking the views of future customers could have been more creative and robust.

1.4. WPD's approach to low carbon and net zero

- 1.4.1. The CEG is impressed by WPD's commitment to ensure "*customers can easily connect low carbon technologies without delays*"¹⁷ and to ensure network capacity is available to achieve net zero in line with the plans of local authorities, but we are concerned there are no adequate means of assessing whether the company is successful through tangible and comparable metrics. We recommend Ofgem ensure the uncertainty mechanism is effective but also highlight that neither

⁹ Annex 2 and shared with WPD, CG and Ofgem during the process, and built on Ofgem's ED2 guidance

¹⁰ The business plan, annex 2a [Our commitments: Justification analysis](#)

¹¹ CVP-1: Ensure WPD is net zero in its operations by 2028

¹² CVP-5: Offer 1.2 million priority services register customers a bespoke smart energy action plan every two years

¹³ CVP-2: Proactively partner with every local authority in the region to help develop local area energy plans

¹⁴ CVP-3: Community energy engineers

¹⁵ [Electricity Distribution Price Control period 2](#), covering 1 April 2023 to 31 March 2028

¹⁶ [CCW PR19 draft determination research](#), February 2020

¹⁷ The business plan, commitment #2

the business plan nor Ofgem’s regulatory framework seem to have enough focus on monitoring delays and frustrated connections and providing rewards/penalties for delivery, which are essential if ED2 is to support a step change in the progress to net zero.

- 1.4.2. We are pleased to see digitalisation, innovation, whole systems and culture change are now factored throughout the plan more strongly. WPD’s online assessment tool, which provides a same day response for domestic connections, is a good example of digitalisation to support progress towards net zero. We welcome the step change in WPD’s strategic ambition in “*revolutionising the electricity network*”¹⁸ and the recognition of the culture change required to deliver this. We have yet to see evidence of WPD recognising the scale of this challenge or making these cross-business changes (which are more complex than the task-led changes with which WPD has prior measurable success). We also note this improved narrative has not translated into more ambitious targets or metrics, meaning there is a divergence between WPD’s stated ambition and some of its commitments, beyond the example given above.
- 1.4.3. We welcome WPD’s commitment to achieve rapid reductions in its internal business carbon footprint and note that stakeholders support this. The headline of net zero by 2028 shows leadership but this commitment has a significantly negative cost benefit analysis and relies heavily on willingness to pay as a proposed justification.

1.5. Financing the plan

- 1.5.1. WPD proposes a higher cost of capital and a relatively modest ongoing efficiency improvement in its plan. We expect Ofgem to scrutinise efficiency in more detail as we do not have access to benchmarking information. WPD delivers better service than other DNOs in some areas (e.g. reconnections within 12 hours) and this may lead to higher costs; the CEG considers the higher service levels are valued by customers and this should be considered in Ofgem’s cost analysis.

1.6. Impact on customers’ bills

- 1.6.1. WPD considers that under its business plan, the network element of customer bills will remain “*broadly flat*”¹⁹ in ED2, based on analysis which makes several adjustments before this comparison is made. Bill levels have varied over ED1, and between WPD’s four licence areas, and it is far from clear to us what impact on bills customers should expect in ED2. We note similar issues in other DNOs’ plans and have previously asked Ofgem to consider a common methodology for the industry to give customers clear, consistent and comparable information.

1.7. Our report

- 1.7.1. The points we have highlighted in this executive summary are expanded on in the main body of our report. WPD’s justification of its plan is discussed at length in chapters three, four, five and seven, and its approach to stakeholder engagements is covered in chapter two (page 13). We discuss the company’s approach to low carbon and net zero in chapter three (page 13). Financial matters and the impact on customers’ bills are covered in chapter six (page 32).

¹⁸ The business plan, page 3, Phil Swift, WPD Chief Executive

¹⁹ Ibid.

2. Chapter two: An open and transparent approach to business plans

2.1. Track record and business plan commitment

2.1.1. WPD's performance in ED1 gives the CEG confidence it will be capable of meeting most of its commitments in the business plan:

- WPD has delivered strong performance in the current price control period, particularly in meeting the output commitments made at the outset on customer service and reliability;
- the company's performance is underpinned by a strong focus on safety and customer service, and it clearly takes these issues seriously;
- WPD has developed strong capabilities in reacting to emerging challenges, including the increased solar penetration early in ED1, data and distribution system operator ("DSO") planning, and acting within the period to begin to address them;
- WPD has been rewarded where it has performed well through regulatory incentives. Its outperformance on rate of return has been largely driven by outperformance on output delivery incentives, with the financial benefits of being fast-tracked offset by financial disadvantages on the allowed debt costs.

2.1.2. We note that WPD is now under new ownership²⁰, which may change its priorities over time, although we have been told this is not expected to be the case.

2.1.3. WPD's commitment to delivery and to customer service, along with its track record in responding well to emerging challenges, gives us confidence the company will be capable of delivering on its commitments for ED2.

2.1.4. The CEG has observed that WPD can sometimes be reactive rather than proactive in addressing new challenges. An example is digitalisation, where WPD has responded positively to the findings of the Energy Data Taskforce, acted on the data recommendations and plans to introduce some new digital processes and services. The business plan notes the potential for digitalisation to drive further benefits, but these are not reflected in the ambition of the commitments. Chapter four (see paragraph 4.2.) of this report provides our views on the opportunities for WPD to go beyond data and benefit from digital transformation.

2.1.5. WPD's board has overseen the development of the business plan and given the required assurance statement, with supporting statements from its non-executive directors; the CEG has been engaged in some of the board discussions during the plan's development.

2.1.6. WPD's business plan includes 13 key strategies, as well as 13 supplementary annexes, most of which are in response to Ofgem requirements. We question whether Ofgem's requirements for all of this material are really necessary, and indeed we suggest the volume of material may be counter-productive compared to a more focused business plan with better defined metrics.

2.1.7. The business plan does not explain "*how the company intends to structure pay and reward within the organisation to achieve the delivery of outcomes set out in its Business Plan*".²¹ We understand from WPD that there are currently no plans to change the company's pay and reward structure

²⁰ [National Grid acquisition of WPD and strategic repositioning](#)

²¹ [Ofgem RIIO-ED2 Business Plan Guidance](#), paragraph 2.5

from that which applies in ED1. We consider this a missed opportunity to show how WPD's approach to management aligns with its customers' interests and the intent of the business plan.

- 2.1.8. We comment on the extent to which WPD proposes to adjust revenue if commitments are not delivered²² (section 3.3.6.) below.

2.2. Giving customers a stronger voice

2.2.1. Overall assessment

- 2.2.1.1. The CEG notes the programme of engagement undertaken by WPD for ED2 is a marked increase on that undertaken for ED1, both in terms of the number of stakeholders and customers engaged, and in terms of the breadth of coverage (well-justified criterion 4²³).

- 2.2.1.2. WPD's "*blank sheet of paper*"²⁴ and co-creation approach had strong merits, particularly in terms of not 'leading' customers and involving them directly in the development of the company's commitments. A lack of meaningful optioneering and identification of clear outcomes for some of the commitments to test in stakeholder research following the early customer prioritisation phases of engagement, however, has left questions over whether some of the final commitments in the plan are the most appropriate for addressing customer and stakeholder priorities and whether they offer the greatest benefits for the costs involved.

- 2.2.1.3. Further, the CEG notes that given the pace of actions and scale of the challenge required by net zero, WPD's ongoing engagement with key whole systems stakeholders, such as major energy users and local authorities, needs to develop into significant ongoing strategic and effective relationships.

- 2.2.1.4. WPD adapted well to the impact of Covid-19 on its proposed engagement programme, with its revised approach to key elements, such as stakeholder workshops, being shown to benefit the programme through demonstrably higher levels of attendance online than had previously been achieved at face-to-face events.

2.2.2. Working with the CEG

- 2.2.2.1. We appreciate the time WPD invested in engaging with us and establishing a broad membership of the CEG, and the open approach it took with us throughout the engagement process.

- 2.2.2.2. We were given regular updates and detail on the research development process and sight of all the bill payer – and most of the stakeholder – research materials, as well as the engagement reports and feedback. This enabled considerable scrutiny and challenge, although occasional late delivery of bill payer materials by the research agency limited the extent and potential impact of the feedback we were able to give, particularly with regard to the final willingness to pay and acceptability testing research. In a small number of instances, unreviewed stakeholder materials were felt to lack some context. Overall, this evidence, and the changes WPD made in the light of our feedback, has given us confidence in the process, and that the priorities driving WPD's business plan commitments have been derived from customer and stakeholder feedback.

²² [Ofgem RIIO-ED2 Business Plan Guidance](#)

²³ CEG @ WPD well-justified criteria, annex 2

²⁴ The business plan, page 3, Phil Swift, WPD Chief Executive

2.2.3. Inclusivity

- 2.2.3.1. The CEG observed an inclusive approach to sampling and recruitment, with WPD seeking feedback from a wide range of stakeholders and bill paying customers (domestic and business), including ensuring that the views of future bill payers and the vulnerable were represented.
- 2.2.3.2. In the case of the former, however, we would have welcomed larger samples of future customers being targeted in the final willingness to pay and acceptability testing research, to make the findings for this important group more robust, as well as a more creative consideration of what steps could have been taken to elicit some level of understanding of the future willingness to pay of this group. We observed a significant expansion in the coverage of WPD's stakeholder database and commendable efforts to include new job functions, players and innovators in areas such as net zero and digitalisation, which helped to address our concerns regarding these groupings having a voice in the process.
- 2.2.3.3. The company has also recognised the diversity and significance of key whole systems actors, particularly local authorities and major energy users in the context of the net zero transition. This included the need for a different engagement methodology to ensure these relationships help support value for money outcomes for customers (including beyond the business planning process).
- 2.2.3.4. Ongoing day to day engagement undertaken as business as usual is further helping to inform WPD's research and the company's commitments. We would have liked to see this more clearly evidenced in WPD's engagement programme.

2.2.4. Quality of engagement

- 2.2.4.1. As a result of the CEG's engagement with WPD, the important distinction between feedback from stakeholders versus feedback from bill paying customer engagement has been made, as well as between stakeholder support versus bill paying customer support.
- 2.2.4.2. The CEG commends the extent of WPD's engagement, which saw more than 25,000 stakeholders engaged (including over 12,000 bill paying customers) using a broad range of methodologies. These methodologies included expert workshops, forums, bilateral meetings, co-creation workshops, 'sprint' workshops, webinars, conferences, consultations, online engagement portals, online panels, citizens panels, social media surveys, focus groups, qualitative and quantitative research surveys.
- 2.2.4.3. The majority of WPD's customer research and stakeholder engagement has been qualitative in nature to support the company's 'blank sheet of paper' and co-creation approaches. This approach had strong merits, most particularly in terms of not 'leading' customers and of involving them directly in the development of the commitments. A lack of identification of clear outcomes internally following the early customer prioritisation phases of engagement mean that questions remain over whether some of the final commitments are the most appropriate for addressing customer and stakeholder priorities and whether they offer them the greatest benefits for the costs involved.
- 2.2.4.4. The CEG believes WPD's use in its plan of percentages of stakeholders supporting its proposals derived from voting at stakeholder events should be viewed with caution. Stakeholder event polls are much less valid than robust quantified research due to the risk that event participants may not be representative of all stakeholders. Importantly, this is mitigated by the use of statistically based research (outlined below) such as acceptability testing which was undertaken with robust and representative samples of bill paying customers.

- 2.2.4.5. Robust quantitative research studies with bill paying customers have also been used to help determine social values and business plan acceptability.
- 2.2.4.6. The CEG sought independent assessment²⁵ of the three separate willingness to pay (“WTP”) studies from Bonamy Finch, experts in Advanced Analytics (including Max Diff²⁶). They have confirmed that – while there were some limitations to the design and analysis – overall, the consistent methodology adopted across the three studies was logical, and the results have been recorded thoroughly, in a clear and accurate way. Data weighting, significance testing and modelling processes have all been carried out to a high standard and users should feel confident each study provides reliable indications of the relative preference between the initiatives in each case.
- 2.2.4.7. There is a question about the use of willingness to pay to support business cases where cases rely heavily on WTP and this is not ‘triangulated’ by other data. In the case of WPD’s business plan, this is particularly relevant to CVP-1. Where the WTP data has been combined with other information and/or the WTP values have been used for prioritisation, we have no issue with the way in which WTP data has been calculated or used.
- 2.2.4.8. Our concerns over the use of WTP include the following points.
- 2.2.4.9. A comparison of the findings for the three WTP studies has demonstrated there appears to be a threshold to the total amount that bill payers would be prepared to pay for any improvements, of around £27 per year for household customers.
- 2.2.4.10. The comparison has also revealed the WTP values achieved appear to be sensitive to the number of attributes tested. In other words, this suggests that had all commitments been tested in each willingness to pay study, rather than the 12-24 tested in each, the maximum WTP would have been ~£27, making the individual WTP values much lower than achieved through testing a smaller number. We cannot see any evidence to suggest that this has been considered in the final business plan (or in calculating the benefits presented to participants in the final acceptability testing) and this may have an impact on WPD’s cost benefit analysis.
- 2.2.4.11. This is much less of an issue where WPD has chosen to use the value supported by 85%²⁷ of the customer base (as it has in its analysis of CVP-4), as this is a much more conservative value than the mean (the value typically used); WPD used a value supported by only 50%²⁸ of the customer base to support CVP-1.
- 2.2.4.12. The CEG was pleased that in addition to the three WTP studies, WPD also undertook two phases of acceptability testing. The second phase of acceptability testing addressed initial concerns raised by the CEG and gave us confidence that both the bill impacts of the business plan, and the additional impacts of the CVPs (subject to the above caveats), had been tested robustly, presenting appropriate context and bills and impacts tailored to WPD’s four licence areas.

2.2.5. Synthesis, triangulation and conflict management

- 2.2.5.1. All WPD’s ED2 engagement has been synthesised and triangulated, and this has enabled us to follow the ‘golden thread’ from initial stakeholder and customer feedback through to their feedback on the commitments subsequently proposed by WPD.

²⁵ Bonamy Finch paper on [CEG website](#)

²⁶ Max Diff, or Maximum Difference, analysis is a survey-based research technique used to quantify preferences.

²⁷ WPD RIIO-ED2 Consumer Value Proposition - CVP-4, page 16

²⁸ WPD RIIO-ED2 Consumer Value Proposition - CVP-1, page 11, para 4.13

2.2.5.2. WPD has also demonstrated a robust process for conflict management and weighting where required.

2.2.6. Enduring engagement

- 2.2.6.1. WPD has set clear expectations with customers and stakeholders of listening to their views and incorporating their input. WPD has detailed how it will continue to engage with stakeholders throughout the period covered by the plan and draw on the learnings from ED2, including because of Covid-19, in defining future engagement programmes. The company intends to begin routinely surveying its customers' views of, and satisfaction with, WPD compared with other non-energy service providers during ED2 but will only survey those customers it has contact with.
- 2.2.6.2. WPD also intends to measure views of customers from a broader range of channels, including digital channels. The CEG welcomes this and believes that Ofgem could add weight to this initiative by broadening the scope of its sample for the broad measure of customer satisfaction to include customer contact via digital channels.
- 2.2.6.3. As noted above, the CEG is not convinced ongoing engagement with the broad range of key whole systems stakeholders will be at the strategic level required to deliver optimal outcomes on the journey to net zero. While WPD has recognised the need for this and the distinct nature of the challenge, the cultural and organisational challenges it faces (see 3.5.3. on workforce resilience) are significant and are not fully reflected in its plan.

3. Chapter three: Delivering value for money services for customers

3.1. Overall assessment

3.1.1. The CEG's key findings are:

- from its extensive stakeholder and customer engagement programme, WPD demonstrates significant stakeholder support for its plan. Customer acceptability of the overall plan, at 80%, is high but not utility (i.e. including water) sector leading²⁹.
- only 68% of customers view the plan as affordable, reflecting many customers' real-life concerns over their household budgets, particularly energy bills, in the light of reports about high wholesale costs around the time of this research.

3.1.2. WPD has improved the justification of its business plan since its draft submission in July 2021. The CEG continues to believe the plan needs further challenge by Ofgem to ensure customers are getting value for money from it, in particular to address:

- gaps in the justification of some of WPD's proposals, especially proposals for CVPs;
- efficiency, which needs to be robust but without undermining the plan's high customer priority core service commitments and progress on the delivery of net zero.

3.1.3. WPD has increased its target on overall customer satisfaction to 93% or higher, an uplift of three percentage points from the draft plan. This is welcome though we note it may not be sufficient (based on the plans of other DNOs) to achieve the industry-leading performance sought by WPD. The company's proposal to regularly measure feedback of customers from digital channels could

²⁹ [CCW PR19 draft determination research](#), February 2020

usefully be reinforced by Ofgem extending the scope of its broad measure of customer satisfaction to include samples of customers of digital channels.

- 3.1.4. The CEG considers WPD justifies its vulnerability strategy and demonstrates that it addresses or exceeds Ofgem’s principles and baselines, has broad stakeholder and customer support and commits to help 75% of eligible customers by the end of ED2.
- 3.1.5. On workforce resilience, the CEG welcomes WPD’s recognition of cultural transformation and notes the company’s track record of adapting to changing requirements. The CEG cannot say with certainty the ED2 plan is deliverable in this respect or will meet future needs, because the plan does not:
- make explicit how WPD will deliver a cultural transformation underpinning the delivery of the ED2 plan with a gap between the ambition of cultural transformation and WPD’s workforce resilience commitments;
 - explain how its workforce resilience plans deliver on the requirement to develop and operate a future network, from the current starting point.
- 3.1.6. WPD has produced a climate resilience strategy which meets the requirements set out in Ofgem’s RII0-ED2 Business Plan Guidance and includes consideration of a range of plausible climate change projections and pathways as required by the regulator. There is a clear process for reviewing and adapting the strategy, and statements of intent to develop appropriate initiatives for what will be a changeable future.

3.2. Outputs and incentives

- 3.2.1. The CEG welcomes the refinement and consolidation of WPD’s core commitments through the business plan development process. Having started with 67 core commitments in the first consultation on the plan in January 2021, WPD rightly recognised a more focused list of those that addressed customers’ priorities would be better. We therefore support the reduction to 42 core commitments in the final submitted business plan and would have supported further narrowing had this been associated with greater demonstrable impact and ability to hold the company to account.
- 3.2.2. The wording of the commitments has improved in general over the course of drafting the plans. Our remaining concern is that some are still only measurable in terms of inputs or outputs rather than in terms of benefits delivered and outcomes achieved. We recognise that measuring outcomes can be challenging but input measures provide less confidence of benefits to customers. For example, for commitment #3, while WPD states the intention behind the commitment, the measurable metric is to hold 90 meetings with local authorities, rather than anything relating to what those meetings will achieve. Similarly, for commitment #4, the measure is updating the Distribution Future Energy Scenarios³⁰ (“DFES”) every 12 months, rather than how the benefits of this approach will be tracked. Our full assessment of the commitments can be found in annex 3.
- 3.2.3. We are particularly impressed by WPD’s commitments regarding the connection of low carbon technologies (“LCTs”). WPD says it will ensure “customers can easily connect low carbon technologies without delays due to a lack of available network capacity” and ensure network capacity is available to achieve progress to net zero in line with the plans of local authorities

³⁰ [Distribution Future Energy Scenarios](#) outline the range of credible futures for the growth of the distribution network including the volumes and regional distribution of LCT uptake

(commitments #1 and #2). This is a big change from experience with distributed generation (for DNOs generally, not just WPD) and we hope to see a similar standard adopted nationally.

- 3.2.4. For these commitments to be effective, it is essential there is an effective mechanism within the regulatory process to hold WPD to account which, given the materiality of the expenditure, goes beyond reputational pressure. We see no such mechanism, neither within Ofgem's proposed methodology nor within WPD's business plan. There has been much discussion of an uncertainty mechanism to provide funding for the associated reinforcements and WPD has made a constructive proposal for this, but providing funding is only one side of the coin and will do nothing to test how well the commitment is delivered.
- 3.2.5. The CEG recognises this is a complex issue. How will WPD, Ofgem or stakeholders more generally be able to tell WPD has not delayed connections due to network capacity and avoided customers being put off connecting LCTs by the time, difficulty and expense of the connection process, and that the company has ensured network capacity is not a barrier to local authorities achieving their plans for net zero? Speed of connections of LCTs and customer satisfaction with LCT connections are relevant but on their own would fail to address the issue. We see this as a major challenge that Ofgem needs to address.
- 3.2.6. Once metrics to assess the successful delivery of WPD's most important commitments are established, it will be necessary to link them to financial incentives if the regulatory regime is to be fit for supporting delivery of progress towards net zero rather than just writing the cheque for it. Without this, it is likely that Ofgem will be repeating past mistakes, where the outcome of a funding mechanism designed to support low carbon connections leads to a perverse incentive on DNOs to discourage some low carbon connections, to alter the mix of work and to benefit financially from the volume driver in the uncertainty mechanism, whilst failing to deliver the volume of connections expected.

3.3. Proposals for bespoke outputs

- 3.3.1. Of WPD's 42 core commitments, WPD proposes that:
- 37 are reputational incentives (of which six are proposed for CVPs and one is also partly covered by a price control deliverable ("PCD"));
 - one is a licence obligation (on the priority services register ("PSR"));
 - three are covered by existing financial incentives; and
 - one is covered by a common PCD (worst served customers).
- 3.3.2. WPD is proposing no bespoke financial output deliverable incentives ("ODIs") and two bespoke PCDs:
- conversion of its commercial fleet to non-carbon (£64m);
 - modernising WPD's radio-based telecoms system (£45m).
- 3.3.3. Of the commitments WPD says are reputational, we understand several will be covered by financial incentives or mechanisms in the price control (such as commitment #16 on efficiency being within scope of the totex incentive mechanism, commitment #35 on asset health being partly covered by the network asset risk metrics mechanism and commitment #14 on visual amenity being covered by that funding mechanism). Others may fall within the scope of the ODIs on the delivery of strategies or the environmental scorecard. We find the business plan less clear than it could be in

this regard. WPD tells us that it is still working with Ofgem to understand the regulator's position on these issues.

- 3.3.4. Nonetheless, the impact of achieving or failing to deliver many of the commitments, and particularly those that are more novel, is reputational only – there is no money at stake for WPD.
- 3.3.5. In our view, the combination of commitments not being measurable in terms of outcomes and the reputation-only nature of the commitments creates a significant risk to customers; we set out at annex 3 our assessment of WPD's commitments against these criteria. It seems very possible WPD will be able to claim commitments have been met even if the underlying benefits have not been delivered, with customers still paying for the inputs. We see this as a weakness of the regulatory regime.
- 3.3.6. We recognise WPD's proposals for bespoke ODIs and PCDs are limited by Ofgem's requirement that bespoke PCDs must be for activities costing at least £15m and bespoke financial ODIs must have rewards/penalties of between 0.25% and 1.0% of revenue, which for WPD overall is approximately £4-15m per year. However, we understand from Ofgem's business plan guidance WPD could have proposed to voluntarily return money to customers if the commitments were not delivered, as the company has done for CVPs.
- 3.3.7. There are elements of WPD's business plan where bespoke PCDs could have been proposed, within Ofgem's guidelines, such as for the roll out of network monitoring equipment. This would be a second-best solution to holding WPD to account for delivering the underlying benefits this expenditure is designed to unlock but may be appropriate if the benefits cannot be tracked directly. The combination of significant numbers of small value activities, each of which falls below Ofgem's £15m threshold, adds up to a material risk to customers without protection.

3.4. Meeting the needs of consumers and network users

3.4.1. Overall customer satisfaction

- 3.4.1.1. WPD has increased the ambition of its commitment on overall customer satisfaction (as measured by Ofgem's Broad Measure of Customer Satisfaction ("BMCS")) in its final business plan and has a number of commitments to support this. Stakeholders have told WPD that maintaining industry leadership is important.
- 3.4.1.2. In its earlier draft business plan, WPD proposed improvements in network reliability for its worst served customers and in its connections business, but proposed a satisfaction target of 90%, close to its recent performance. Following discussions with the CEG and having considered its latest performance and proposals by other DNOs, WPD now proposes an overall target of 93% or higher. The CEG notes that 93% may not achieve industry-leading performance, based on the draft plans of other DNOs. In WPD's latest customer research, this 93% target was found to be acceptable by 86% of customers. When offered alternatives in WPD's research however, only 52% of customers would be satisfied with the 93% target, compared with 40% who would be satisfied with higher targets and their associated higher costs. This suggests that the company should continue to strive to improve its customer satisfaction to fulfil customer expectations, particularly if other DNOs continue their improvement.
- 3.4.1.3. The company also proposes to increase the scope of its regular measurement of feedback from customers to include digital channels. As the CEG points out in the Enduring engagement section above (see 2.2.6.), it would reinforce the importance of these channels if Ofgem were to broaden

the scope of its BMCS for the industry to include samples of customers who have used digital channels to deal with regulated businesses.

3.4.2. Vulnerability strategy

- 3.4.2.1. In its customer vulnerability strategy³¹, WPD shows how it has addressed Ofgem’s principles and has gone “*significantly beyond*” Ofgem’s baseline expectations. The CEG believes the strategy to be well-justified, subject to any benchmarking that Ofgem itself can do. The company proposes some new initiatives and outputs through the five commitments in this area, including working to provide a joined up, “*one stop shop*”³² service with other utility and telecoms companies and helping to ensure customers are not left behind in the smart energy transition. WPD also shows how it will work with partner organisations to increase the reach of its support and to provide help to customers who need it.
- 3.4.2.2. WPD shows from its stakeholder and customer research that dealing with vulnerability is a priority for many stakeholders. It has tested the outputs it proposes on stakeholders and customers and demonstrates broad support for this area.
- 3.4.2.3. In terms of overall outcome, the company aims to provide support to 75% of eligible customers and 80% of customers with critical medical dependencies, as well as to register hard to reach customers. This is well above its current reach but, even by achieving this higher level, there will remain significant numbers of eligible customers who do not get help and there will be constant change due to transient vulnerability, so the company will need to strive to build on this in future.
- 3.4.2.4. WPD shows how it will keep its data up to date and try to ensure it is of useable quality. The company explains that it expects the nature of vulnerability might change, particularly in the context of a smarter electricity system and the current situation with energy retailers, but it is less clear on wider societal changes or how the company might change its approach in the light of such changes.
- 3.4.2.5. By way of milestones for monitoring delivery of its vulnerability commitments, the company’s plan provides either annual targets or an annual ‘trajectory’ towards achievement by the end of ED2.

3.4.3. Connections strategy

- 3.4.3.1. WPD makes a clear, positive statement that a “*lack of network capacity should not be a barrier for our customers*”³³, which the CEG welcomes.
- 3.4.3.2. WPD commits to a same-day response for domestic customer connections. It has credible plans to be able to accommodate electric vehicles (“EVs”) and heat pumps, based on smart use of digitalisation investment.
- 3.4.3.3. WPD’s commitment to non-domestic connections focuses on the provision of flexible connections (commitment #32), supported by additional targets in the major connections strategy³⁴, with additional governance offered by the Customer Connection Steering Group³⁵. The CEG has challenged WPD on its incremental target of offering just 1% improvement in time to quote and in time to connect for LCTs from ED1 (small schemes). The CEG notes high volumes of renewables and storage will be required to meet the government’s target of net zero power by 2035.

³¹ [Customer Vulnerability Strategy](#), December 2021

³² The business plan, commitment #21, page 40

³³ The business plan, page 3, Phil Swift, WPD Chief Executive

³⁴ [Major Connections Strategy](#), December 2021

³⁵ The business plan, page 49, para 2.176

Stakeholder feedback indicates a desire for better service in terms of speed, options received, and clarity on the cost drivers for WPD so developers can optimise their schemes in terms of grid costs etc. WPD has provided satisfactory evidence of high stakeholder acceptability (87% support) of this incremental 1% target.

3.4.3.4. The CEG understands WPD is awaiting confirmation from Ofgem on agreed metrics for connections. The CEG recommends:

- the metrics provide clear quantitative targets for non-domestic connections, to match WPD’s clear commitment on domestic connections; and
- Ofgem considers metrics that reflect the ambition of WPD’s investment in digitalisation, not just current stakeholder acceptability. WPD’s major connections strategy states that WPD “*will digitalise the customer connection journey for co-created connection offer agreements*”³⁶, but the CEG cannot yet see this investment reflected in a measurable quantitative target for customer benefit. The CEG suspects there are opportunities for the company to apply its digitalisation projects to commit to more ambitious targets on non-domestic connections, and that stakeholders may not be fully aware of what is possible.

3.5. Maintaining a safe and resilient network

3.5.1. Resilience

3.5.1.1. We welcome WPD’s focus on network reliability and improving outcomes for worst served customers. We are pleased to see the final business plan includes explicit targets for customer interruptions and customer minutes lost.

3.5.1.2. In our view, the business plan could have been improved by greater consideration of whether customers’ needs, and appreciation of their own electricity resilience have changed, for example, in terms of increased working from home (agile or hybrid working of WPD customers) or greater reliance on low carbon technologies, and whether different approaches to short interruptions should be considered.

3.5.1.3. We note that WPD is only proposing £4m of expenditure on worst served customers across ED2. While this may be proportionate to the number of customers affected by the Ofgem definition of worst served customers, we note that it is a relatively small amount of expenditure for an issue that customers and stakeholders felt was a relatively high priority. This might suggest that a broader definition could be considered in future by Ofgem.

3.5.1.4. In the light of recent sector experience following Storm Arwen, we expect both the Ofgem and BEIS inquiries will look more closely at the resilience of networks, as the impacts of climate change lead to an increase in frequency and intensity of severe weather events. While we believe WPD customers to have been less affected than those of other DNOs, there is clearly no scope for complacency. It will be important to build on the improvements WPD has made through ED1 in reducing the number of customers off supply for more than 12 hours, from over 10,000 in 2012/13 to 155 in 2020/21. In particular, we trust Ofgem will recognise these improvements come at a cost, which should not be penalised.

3.5.1.5. On overall asset replacement expenditure and commitment #35, we note that WPD is proposing expenditure of £1,078m, a 17% increase in annual expenditure from ED1. WPD claims this will lead to a 22% improvement in asset health, which is correct against the projected deterioration without

³⁶ Major Connections Strategy, page 20

intervention, but may obscure the fact that WPD's proposal means its asset health will be 3% worse at the end of ED2 than at the beginning³⁷.

- 3.5.1.6. We have two concerns with WPD's proposals on asset replacement.
- 3.5.1.7. Firstly, while the business plan states WPD's proposals strike "*the optimal balance between the cost of replacing assets versus the impact of unplanned power cuts*"³⁸ we understand the company's proposed investments are not in line with the Network Asset Risk Metrics (NARM)³⁹ modelling that takes this approach. WPD places more weight on replacing worst condition assets, on continuing run rates from ED1 and on local expertise. For example, the NARM analysis suggests that low voltage ("LV") poles whose condition has only moderately deteriorated (health categories 2 and 3 - where 1 is the best condition and 5 the worst⁴⁰) should be replaced on a cost-benefit basis whereas WPD considers this is not justified because it will lead to the replacement of assets that have only limited deterioration. In other cases, WPD proposes more investment than the NARM model suggests. The CEG agrees WPD should not automatically follow the NARM model and recognises that WPD's proposals may be better, but this must then reflect flaws in the NARM approach which should be reconsidered (for example if the NARM analysis compares the impact of replacement against not replacing, rather than replacing later). Another consequence of this disparity between WPD's proposals and the NARM model is the model suggests (perhaps incorrectly) that better asset health - lower risk to customers - could be delivered by rebalancing WPD's expenditure on asset health. The overall implication is that the apparently sophisticated regulatory approach to asset health is mis-calibrated.
- 3.5.1.8. Our second concern relates to WPD's engagement with customers and stakeholders, where it tested a range of alternatives for asset health expenditure. Option 1 to 'maintain current asset health levels' was offered with a bill saving of 27p per year, with option 2 described as 'incrementally improve asset health levels' at no bill impact (i.e. including in the business plan) and further options with greater improvements. As noted above, the selected option 2 actually involves asset health levels being marginally worse at the end of ED2 than at the start. We consider this is confusing. More fundamentally, we question whether customers can reasonably be expected to make judgements about the appropriate approach to asset health given the technical complexities noted above. We note subsequent stakeholder engagement addressed this issue more appropriately, but very late in the process.
- 3.5.1.9. Commitments #37 and #38 relate to the critical issue of public safety. We consider stakeholders should be able to expect that WPD's network will be operated safely and inherent risks to the public will be addressed. We remain unclear as to what analysis WPD has done to decide that overhead lines in the vicinity of school playing fields is the most urgent public safety issue and note that no attempt has been made to quantify the benefits of the proposed expenditure in terms of the reduction in risk the investment might achieve.

3.5.2. Climate resilience and pathways to net zero

- 3.5.2.1. WPD has produced a climate resilience strategy⁴¹ which meets the requirements set out in Ofgem's RIIO-ED2 Business Plan Guidance. This includes consideration of a range of plausible climate

³⁷ The business plan, page 133, figure 6.8

³⁸ The business plan, [annex 2a](#), page 81

³⁹ Network Asset Risk Metrics are used to calculate the future risk associated with an asset and to prioritise those assets that need to be changed

⁴⁰ EJP 047 LV Pole Line Conductor and Pole Replacement and Refurbishment Programme

⁴¹ [Climate Resilience Strategy, December 2021](#)

change projections and pathways (defined in this context as temperature, precipitation, lightning and vegetation management) as required by Ofgem. There is a structured risk and impact assessment process, which has been in place for over a decade. The climate resilience strategy is appropriately linked into national and international bodies and their projections and is co-ordinated with other parties including other DNOs and local authorities.

- 3.5.2.2. There is a clear process for reviewing and adapting the strategy, and statements of intent to develop appropriate initiatives, although all the examples given in the strategy itself are from ED1. There is, however, a core commitment in the business plan to reduce flooding risk at 102 sites (commitment #36). This recognises stakeholder feedback gathered during the ED2 consultation process, although some stakeholders wanted more numerical context linking this commitment to the impact of climate change: this is an example of an area where WPD might usefully have presented stakeholders with broader options and set out the relative impact and cost of this commitment in relation to national climate change projections.
- 3.5.2.3. While engagement with local authorities is mentioned in WPD's climate resilience strategy, the reference relates to ensuring future planning decisions and development inform WPD's resilience planning, and it is not clear how well integrated this engagement is with the broader local authority engagement on pathways to net zero covered by local area energy plans and commitments #1, #3 and #4.

3.5.3. Workforce resilience

- 3.5.3.1. WPD has demonstrated in recent years an ability to adapt to rapid changes such as the emergence of discrete DSO roles. It has a stated preference for recruiting and developing its own in-house talent, and engagement with the CEG has helped shape the company's workforce resilience strategy.
- 3.5.3.2. Overall, the CEG believes the plan does not evidence how WPD has assessed the outcomes of its workforce resilience plans against the requirements of a future network. Beyond recognising the need for DSO functionality and roles, WPD is not explicit on how it will deliver this transformation in ED2 or how it will measure the outcome against the requirements of developing and operating a future network. It is not clear how the company will test its approach will meet the challenges it faces, including the potential lack of digital skills economy-wide. Given the plan states cultural change is required to deliver digitalisation and innovation, which drive WPD's ambitions in relation to net zero, the lack of evidence of cultural transformation already underway, poses a level of risk to the deliverability of the business plan.
- 3.5.3.3. With regards to WPD's workforce resilience core commitments, we have the following comments.
- 3.5.3.4. Commitment #41 suggests WPD will demonstrate exceptional and embedded employment practices by achieving Gold accreditation with Investors in People⁴² by the end of ED2. Whilst this is ambitious and benchmarked, it is unclear how achieving Gold accreditation will address the requirements of developing and operating a future network.
- 3.5.3.5. WPD states it will achieve year-on-year improvements to the levels of diversity within the business and publish an annual Diversity, Equity and Inclusion Action Plan (commitment #42). This commitment is not measurable, and the plan does not justify it, nor does it explain how it addresses WPD's future workforce needs. The CEG observes that, like the rest of the sector, there is scope for WPD to make considerable progress in this area. In April 2021, WPD had a ratio of

⁴² [We invest in people - Investors in People | Accreditations](#)

82.6% male to 17.4% female employees⁴³, and 2.6% of staff identity as BAME (of the 84% of the total staff population who disclosed their ethnicity)⁴⁴. The CEG is concerned that it will not lead to any meaningful change by the end of ED2 and considers it insufficient to attract the widest range of talent to address the challenges of net zero and digitalisation in developing and operating a future network.

- 3.5.3.6. Given the new and additional skills required to meet the needs of the future network, the CEG is unclear why the training expenditure in the plan remains relatively unchanged (ED1 annual average £30m, ED2 annual average £31m).
- 3.5.3.7. The CEG acknowledges WPD has collaborated with other DNOs to establish workforce metrics and has committed to improving data transparency. Measuring equity, diversity and inclusion metrics is distinct from taking action and WPD has not set itself clear targets in commitment #42.
- 3.5.3.8. The CEG recognises WPD has consulted with stakeholders on its workforce resilience plan; however, we would question whether it has sufficiently collaborated with industry bodies to ensure its plan will deliver the workforce requirements for developing and operating a future network or to improve diversity to reflect its customers. As stated above, the plan falls short of an ambitious, measurable diversity plan, and may not lead to meaningful change by the end of ED2. WPD's new owner, National Grid, has a more diverse workforce, and we have been told WPD looks forward to learning from National Grid with regards to workforce resilience and diversity.

3.5.4. Delivering an environmentally sustainable network

- 3.5.4.1. Commitments #10 to #15 cover the direct impact of WPD's activities on the environment.
- 3.5.4.2. The CEG welcomes WPD's ambitious proposal to be an exemplar in terms of its own business carbon footprint, not least to maximise its credibility in achieving the far larger indirect impact of its activities, such as enabling network users to progress towards net zero.
- 3.5.4.3. We therefore welcome commitment #10 to target net zero by 2028, recognising that the definition WPD applies does not cover all emissions⁴⁵. WPD's justification for this commitment rests heavily on stakeholder support, as the aggregate costs of the proposal outweigh the benefits unless additional value is given for customer willingness to pay which the CEG is not convinced is appropriate, particularly given our concerns regarding the current use of the willingness to pay data, as we note in chapter two (see 2.2.4.7. – 2.2.4.11.). We are concerned some of the elements of WPD's proposal would not actually lead to environmental improvements, such as reliance on Renewable Energy Guarantees of Origin ("REGO")⁴⁶-backed tariffs for discounting the carbon content of electricity which could be considered greenwashing. We support WPD's proposals to replace as many vehicles with EVs as practical when they are due for replacement but have seen no analysis to justify the environmental benefits and costs of going beyond that and replacing vehicles before the end of their life⁴⁷.
- 3.5.4.4. We recognise WPD proposes to maximise the reductions in the company's own emissions and only use carbon offsets as a last resort if needed, and it will not buy offsets but will undertake

⁴³ [Workforce Resilience Strategy, June 2021, page 5](#)

⁴⁴ Op. cit

⁴⁵ For example, the definition excludes network losses and embedded emissions.

⁴⁶ [Renewable Energy Guarantees of Origin \(REGO\) | Ofgem](#)

⁴⁷ Annex 2a in the plan provides an analysis of the costs and greenhouse gas emission impact of WPD's proposal but does not separately identify the additional cost or environmental impact of accelerating replacement

“insetting”⁴⁸ activities to offset emissions. However, the CEG is still not clear why a DNO’s customers should be paying for offsetting of emissions relating to electricity distribution activities if they are not required to pay for offsetting in other things they buy (such as the rest of their energy bill). We consider Ofgem will need to decide whether to fund carbon offsetting by DNOs and there should be a consistent policy across all DNOs.

3.5.4.5. We support WPD’s proposals to continue to make incremental improvements in other aspects of its environmental impact (commitments #11 to #15). We understand WPD made much greater improvements in reducing SF6⁴⁹ leakage in ED1 but it considers the scope for further gains in ED2 is more modest. This may be correct but could usefully have been more transparent in the plan, reflecting developments in manufacturer offerings as well as WPD’s past innovation work in this area.

4. Chapter four: A smart, flexible energy system

4.1. Overall assessment

4.1.1. The CEG welcomes WPD’s:

- step-change in strategic ambition in “*revolutionising the electricity network*”⁵⁰ and in recognising the need for cultural transformation to deliver this;
- articulation of the benefits of using digitalisation, DSO, whole systems, and innovation to deliver net zero emissions, transform WPD’s services and deliver value to consumers;
- expansion of whole systems to a broad definition, the ambition to focus on ‘broad’⁵¹ and ‘very broad’⁵² projects and to consider the whole systems interactions in major investments;
- business innovation programme with measures to track innovation projects across the business, set performance metrics for staff and establish a portfolio of projects.

4.1.2. The CEG recognises:

- WPD’s strong track record in delivering innovation projects and DSO flexibility, involvement in the Energy Data Taskforce⁵³ and evidence of its ability to respond to clearly articulated new requirements;
- WPD’s ‘flexibility first’ approach, which appears to be fully embedded within the company;
- the digitalisation, DSO and innovation commitments and strategies evidenced in WPD’s stakeholder engagement;
- the digitalisation strategy has developed over the period of engagement to recognise the importance of wider digital transformation.

4.1.3. The CEG sees the outstanding risks as:

⁴⁸ WPD Environment Action Plan RIIO-ED2 December 2021, page 25

⁴⁹ Sulphur hexafluoride: a greenhouse gas used as an insulator by manufacturers of electrical switchgear

⁵⁰ The business plan, page 3, Phil Swift, WPD Chief Executive

⁵¹ Ibid. page 79, para 3.116

⁵² Op. cit

⁵³ [Energy Data Taskforce](#)

- deliverability in embedding the wider digitalisation transformation across the business, as the plan is 'data-focused' and less well developed beyond the data elements and the wider digital transformation is not captured in the commitments;
- inefficiencies, as there is little evidence of how WPD will transform its culture to embed digitalisation and innovation, increase board level skill and scrutiny and address low ambition in workforce resilience commitments;
- independence of DNO and DSO may be less complete if both report to the same executive;
- value for money from the whole systems projects, which are categorised as having a 'very broad' impact, yet there is no evidence of collaboration or benefits beyond electricity bills;
- value for money as the justification for the target of £95m of efficiencies from innovation relies on top-down benchmarking by NERA for the ENA and not an assessment of what efficiencies WPD could deliver from innovation.

4.2. Digitalisation

- 4.2.1. The need for digitalisation to deliver net zero carbon emissions features strongly in the business plan. The plan and WPD's Destination: Net Zero Business Innovation and Efficiency Strategy⁵⁴ recognise the opportunity and challenges net zero brings and the need to embed innovation and digitalisation across the business and underpinned by a holistic strategy.
- 4.2.2. The CEG welcomes the shift in WPD's thinking that recognises a cultural transformation is needed to achieve this. WPD recognises the need to move away from working in siloes and intends to change its project management from a vertical 'waterfall' approach, which is how it manages engineering projects, to 'agile'⁵⁵. The CEG also welcomes the creation of a Digitalisation and Data Governance Group⁵⁶ which includes relevant people from within the business.
- 4.2.3. The business plan demonstrates how digitalisation could bring wider benefits to customer service and the construction and operation of the network. The CEG welcomes the ambition of some of the digitalisation commitments in the plan⁵⁷, which include voice activated apps for vulnerable customers, Amazon-style digital engagement with customers and machine learning to prevent faults on the network. This suggests the business plan has the potential to deliver significantly more than is contained in the core commitments.
- 4.2.4. The CEG recognises WPD's track record in delivering the current Energy Data Taskforce requirements. It welcomes WPD's commitment to continue making data accessible by making 60% of network data available via an interactive application programming interface (commitment #17).
- 4.2.5. The CEG also welcomes commitment #31 to use digitalisation to provide a same day response via an online self-assessment tool to individual domestic customers seeking to connect low carbon technologies. It illustrates the potential for digitalisation not only to improve service levels, but to alter the cost to serve for WPD and its customers.
- 4.2.6. The CEG considers there are missed opportunities for digitalisation to transform more of the services offered in WPD's core commitments. For example, there are no measurable criteria for

⁵⁴ [Business Innovation and Efficiency Strategy, December 2021](#)

⁵⁵ [Digitalisation Strategy and Action Plan](#), page 44

⁵⁶ Op. cit, page 45

⁵⁷ The business plan, page 89

assessing the success of embedding digitalisation. The wider benefits recognised, such as Amazon-style customer service or machine learning to improve network operation, are not measurable or incorporated in the commitments. There is a gap between the potential benefits of digitalisation and the digitalisation core commitment, which focuses on the accessibility of network data, against which WPD's performance will be measured.

- 4.2.7. As with most of the plan, WPD's digitalisation commitment has high stakeholder acceptability, but the company has not tested whether stakeholders comprehensively identify and understand future needs, as outlined in the Energy Digitalisation Taskforce's⁵⁸ recommendations that have been co-developed with the sector in 2021 and the BEIS and Ofgem report Digitalising our energy system for net zero⁵⁹: which says "*All parts of the energy system – demand, supply, markets, networks – need digitalising to create a more efficient 'whole system approach'*". There is a risk that by relying on stakeholders, the opportunities for radical transformation are missed as stakeholders ask for 'faster horses rather than cars'.
- 4.2.8. While satisfied that WPD is likely to meet its digitalisation commitments, the CEG is concerned the company's digitalisation strategy will not deliver on the wider digitalisation ambitions across the business, which may lead to missed opportunities or inefficient costs being incurred. Despite the headline 'Digitalisation', WPD's strategy continues to have a data-heavy focus. The digitalisation strategy maps where WPD would like to be at the end of ED2 against the Energy Data Taskforce recommendations⁶⁰, which focus heavily on the visibility and accessibility of data. While data is important, the plan is less developed on what and how WPD will digitalise its systems, processes, services, and networks, which risks greater costs being incurred as this is discovered. The CEG proposes that Ofgem clarifies how WPD (and other sector players) will be held responsible for shaping and implementing the Energy Digitalisation Taskforce recommendations⁶¹.
- 4.2.9. There is little explanation of how WPD will achieve the cultural transformation needed to embed digitalisation. For example, the company identifies digitalisation delivery requires a wide range of talent, yet the diversity commitment of year-on-year improvement is not measurably ambitious given it starts at a low base as we noted earlier, and it is unclear whether the plan will be sufficient to deliver the skills WPD will need. Additionally, it is unclear how WPD's board will develop the skills to effectively challenge and monitor the executive team to deliver on digitalisation, so, there is a risk of inefficiencies as WPD develops its digitalisation plan.
- 4.2.10. The CEG welcomes the improved justification of the expenditure on data and digitalisation. The plan concludes that every £1 invested in digitalisation delivers £17 in benefits⁶². This is derived from the relevant Engineering Justification Papers ("EJPs"), which are justified; they include a range of options, quantifiable benefits, and a cost-benefit analysis of at least the preferred options. The CEG recommends Ofgem clarify with WPD whether there is any double counting in the calculation of £17 of benefits. There are projects, which are interdependent and achieve similar benefits, such as smart meter planning data (EJP #100) and time series data store (EJP #101).
- 4.2.11. The level of justification is not as high across all the investment in information technology and network digitalisation. From our sampling of the EJPs, we note that LV network monitoring (EJP #110) and LV monitoring (EJP #109), which account for £31m and £9m of costs, have limited

⁵⁸ [Energy Digitalisation Taskforce](#)

⁵⁹ [Digitalising our energy system for net zero: Strategy and Action Plan 2021](#), page 7

⁶⁰ [Digitalisation Strategy and Action Plan](#), page 23

⁶¹ <https://es.catapult.org.uk/news/energy-digitalisation-taskforce-launches/>

⁶² Supplementary Annex 6, page197-201 and Digitalisation Strategy, page52-53

analysis of benefits and have negative NPVs. EJP #37 on the remote terminal unit replacement programme, which accounts for £41m of costs, has no cost benefit assessment.

4.3. DSO transition

- 4.3.1. WPD's 'flexibility first'⁶³ approach is well-embedded within the business plan, and we welcome the company's commitment to optimising the use of existing infrastructure. The plan sets out WPD's extensive programme of innovation on DSO, committing to flexibility first rather than network solutions. As evidenced in the EJPs, this flexibility first approach is followed through in assessing individual reinforcement projects. Furthermore, WPD's DSO strategy presents a thorough review against baseline expectations.
- 4.3.2. At present, there is an absence of clear, measurable metrics for flexibility performance. We understand these are currently open and in discussion with Ofgem – the CEG reiterates the importance of these. Without specific, quantifiable commitments, the plan provides insufficient comfort that WPD will be held to account on its aims.
- 4.3.3. The CEG understands Ofgem has asked for independence of DNO and DSO and this policy may develop further. WPD's approach to an independent DSO appears to be backed by stakeholder support, and the company has proposed "*complete independence of DSO and DNO decision making*"⁶⁴, backed up by independent audit and licence conditions. The CEG notes both DNO and DSO will report to the same director, and WPD intends to apply the same culture across both organisations.
- 4.3.4. The CEG notes WPD is unique amongst DNOs in developing its digital solutions for DSO, particularly Flexible Power, inhouse. WPD's track record is strong: it has demonstrated compellingly the value Flexible Power has delivered in ED1, including the platform being licensed to other DNOs. Given growing industry investment in competing third party solutions, the CEG expects WPD to evaluate alternative approaches to ensure customer value for money and ensure smooth integrations where appropriate.

4.4. Enabling whole system solutions

- 4.4.1. The business plan recognises the importance of whole systems in delivering net zero efficiently and the benefits a whole systems approach could bring to a variety of outcomes within and beyond the sector. The CEG welcomes the clear definitions and a framework for whole systems approaches in the business, as well as a structured approach to identifying and monitoring projects aiming to deliver this. The CEG also welcomes WPD's ambition to focus delivery on the 'broad' and 'very broad' categories and the commitment to consider whole system interactions before major investments. The whole systems strategy⁶⁵ is a significant improvement on that presented in previous drafts and addresses feedback from both the CEG and CG for greater clarity.
- 4.4.2. As mentioned elsewhere in this chapter, the interactions between whole systems, digitalisation and innovation are well recognised and position whole systems as part of a holistic vision. The CEG welcomes recognition in the whole systems strategy of the need for cultural transformation and effective engagement with stakeholders, although some of the concerns on cultural transformation noted earlier will also be relevant. The CEG recognises this is still an evolving policy area and as such is less well developed than others in this chapter. It is also a sectoral and national policy

⁶³ The business plan, page 68

⁶⁴ The business plan, page 66, para 3.30

⁶⁵ [Whole Systems Strategy, December 2021](#)

challenge, hence not entirely within the remit of an individual DNO, so there will need to be consideration of how to assess success in this area.

- 4.4.3. Nonetheless, the CEG considers the strategy could be more ambitious in some areas. There is no mention of the challenges of industrial decarbonisation; yet three of the seven UK industrial clusters are within WPD's licence areas. There is a tendency to emphasise breadth rather than depth in the initiatives. There is limited description of the benefits of the projects listed in the whole systems strategy and a tendency to represent relatively 'narrow' projects as broader (i.e., more 'whole system') than they actually are. For example, where they are presented for the PSR campaign⁶⁶, it is from an electricity bill perspective and there is no evidence of collaboration or a wide range of customer benefits.
- 4.4.4. The CEG considers a more significant shift than is recognised in the business plan is needed to collaborate rather than consult with stakeholders. Success in whole systems will depend on the ability to appreciate and respond to other parties' interests at all relevant levels in the organisation. This includes recognition of the need to facilitate and participate in ongoing deep collaboration with other key whole system stakeholders (i.e. mechanisms which go beyond periodic cooperation or consultation, and which identify and support opportunities to produce additional customer value by collectively thinking beyond electricity, as well as the provision of timely and meaningful data tailored to whole system approaches by others).
- 4.4.5. The CEG notes that building a whole systems approach into the GB energy regulation landscape is a recognised and as yet unresolved national policy challenge. WPD's proposals for uncertainty mechanisms based around disaggregated and mechanistic volume drivers miss an opportunity to seek greater alignment between regulatory incentives and whole systems approaches. There is no consideration of the potential value and role of meaningful whole systems institutions below or alongside Ofgem. Despite the encouraging language and frameworks set out to support whole systems thinking, the fundamental financial drivers and incentives for WPD remain narrowly focused on electricity network asset management and can be met (potentially most easily) without following through on any whole systems commitments at all.

4.5. Innovation

- 4.5.1. WPD has demonstrated a strong track record in leading valuable innovation projects, including as referenced above, DSO transition. The business plan describes the benefits from a range of DSO and innovation projects and the cost savings from DSO activities from avoided reinforcement. The CEG has confidence in WPD's ability to continue delivering valuable innovation projects.
- 4.5.2. The CEG welcomes WPD's recognition that innovation is central to the delivery of progress towards net zero and that innovation needs to be embedded across the company. The Business Innovation and Efficiency strategy⁶⁷ demonstrates the linkage between innovation, digitalisation, and greater efficiencies. The CEG welcomes the articulation of the potential benefits that innovation could bring across the business⁶⁸. This vision and integrated approach position the innovation strategy as more than a series of innovation projects, addressing one of the CEG's initial concerns.
- 4.5.3. The creation of a business innovation programme and a team that will coordinate, track and support innovation across the business with the inclusion of performance metrics on innovation for managers is helpful in embedding innovation across the business. The CEG also welcomes the

⁶⁶ Whole Systems Strategy, page 29

⁶⁷ [Business Innovation and Efficiency Strategy, December 2021](#)

⁶⁸ The business plan, page 85, figure 3.7

approach of determining a portfolio of projects across a range of key themes to facilitate cross-company working and stakeholder engagement. The CEG considers these measures will support greater cross-business working (assuming the performance metrics reward this).

- 4.5.4. The CEG also welcomes WPD setting a quantifiable commitment (#16) to deliver measurable efficiency savings from innovation and incremental business efficiencies. This commitment has evolved significantly to become outcome-focused and quantifiable because of WPD responding to feedback from stakeholders and the CEG.
- 4.5.5. The CEG remains concerned by the lack of justification and evidence of ambition for the £95m target set. We have seen top-down benchmarking⁶⁹, which is discussed in the Cost information section (see 5.4) but have not seen consideration of what WPD could do to generate efficiencies from innovation to assess the targeted £95m of efficiencies. Annex 2a asserts rather than demonstrates that the costs outweigh the benefits. While performance metrics for staff will be set to encourage innovation, there is no explanation of how efficiencies from innovation would be measured. There is justification for the innovation portal in EJP (EJP0095 Innovation Hub) but this accounts for a small share of the potential efficiencies. Depending on how this commitment benchmarks against those of other DNOs, Ofgem may wish to seek a more ambitious and well-justified commitment.
- 4.5.6. The CEG welcomes WPD's high self-awareness of its innovation challenges, with WPD describing its challenge in moving from a culture where innovation is seen as *"scary, complicated or difficult"*⁷⁰. Annex 2a states that *"we realise that implementation of innovation projects into business as usual may be improved given that there are signs of fatigue at the end of innovation projects"*⁷¹. This organisational self-awareness and transparency around current issues indicates a maturity that establishes a strong platform for ED2, although the proposals for addressing this will need ongoing refinement.
- 4.5.7. As mentioned above, the CEG is concerned about deliverability of the full ambitions, which could result in missed opportunities or inefficient costs. There are no criteria for measuring the success of embedding innovation across the business beyond the efficiency savings and we are unclear whether these are the best WPD can deliver for customers. As such, it will be difficult at the end of ED2 to assess how well this has been achieved.
- 4.5.8. As we note in the digitalisation section, the business plan could benefit from a greater commitment to diversity and governance to embed innovation. The business plan seems to assume new processes that task senior managers and innovation ambassadors to develop innovative ideas and track performance, will suffice. There is no evidence of plans to enhance the skills of the board to challenge and probe in this area. This, combined with the low level of ambition in enhancing WPD's workforce's skills and ways of working through diversity, leads to a risk that innovation will not be fully embedded into the business.

⁶⁹ The business plan, page 154, figure 6.41 NERA's report to ENA, *Ongoing Efficiency Improvement*, April 2021

⁷⁰ The business plan, page 84, para 3.139

⁷¹ [SA-02a Supplementary Annex](#) Our commitments: Justification analysis, page 109

5. Chapter five – Keeping consumer bills low

5.1. Overall assessment

5.1.1. In summary, the CEG's findings are:

- we have seen limited evidence on the efficiency of WPD's costs and find that the impact of WPD's plan on customer bills is unclear. We expect Ofgem to undertake further analysis on both issues;
- we support WPD's approach to uncertainty mechanisms. Stronger mechanisms to ensure delivery are needed to provide value for money for consumers; and
- we find WPD's business plan provides better justification for discretionary expenditure than earlier drafts. In some cases, the benefits remain unclear despite stakeholder support.

5.1.2. WPD considers that under its business plan, the network element of customer bills will be "*broadly flat*" in ED2. The CEG notes that this is based on analysis which makes a number of adjustments before making the comparison, and in a context where network charges have fluctuated significantly through ED1. Bill levels and profiles over time also vary across WPD's four licence areas. In the CEG's view, it is far from clear what impact on bills customers should expect in ED2, even from the central case, let alone after uncertainty mechanisms have taken effect, at a time of heightened sensitivity due to the dramatic changes in wholesale prices and hence electricity bills overall. We note similar issues in other DNOs' plans and asked Ofgem to help resolve this issue when it became apparent to us earlier in 2021, but no progress has been made. We consider this is unfortunate and risks undermining the customer research for ED2 (as far as we are aware, this would apply to all DNOs, not just WPD). We expect Ofgem to provide comparable bill impact information with its draft determinations but this will be too late to influence company proposals.

5.2. Forecasts and scenarios

5.2.1. WPD led the development of Distribution Future Energy Scenarios to assess how use of the network could change and to use this data to guide network planning. WPD's DFES process includes stakeholder input, including a structured and proactive local authority engagement process (see our comments in chapter seven at 7.2.2.4.).

5.2.2. The final business plan includes a credible and comprehensive whole systems-based approach to this engagement, which is likely to deliver more realistic and efficient outcomes⁷² although the capability of WPD's culture to ensure these outcomes are achieved remains to be proven (see CEG comments in the whole systems section 4.4.). The outcomes are published by licence area and updated annually, and there is a defined process for arriving at a 'Best View', which is supported by credible alternative pathways. There is a stated ambition to touch the network only once to 2050⁷³. Whether this will deliver lowest cost outcomes for customers when it conflicts with broad whole systems collaborations and mechanistic uncertainty mechanisms remains to be proven.

5.2.3. WPD has committed to following industry best practice in the use of flexibility and investment decision-making⁷⁴. The flexibility first approach while encouraging, remains a response to local network loading driving a need for additional capacity or new connection requests. (A whole

⁷² The business plan, pages 77-81

⁷³ The business plan, page 68, para 3.43

⁷⁴ Ibid. para 3.44

systems perspective on flexibility might also consider the role of flexibility in increasing the value and hence take-up of low carbon technologies in local markets, for example).

5.3. Just transition to net zero

- 5.3.1. WPD has made noticeably clear and well-structured efforts to make its expertise available to the parties involved in net zero planning at local level, although there is a tension between WPD's desire to follow a consistent approach across its licence areas and the diversity of parties and stakeholders it is targeting.
- 5.3.2. The business plan does not set out sufficient evidence that WPD's front-line staff have the skills and capacity to engage in the more iterative, reciprocal planning and joint problem-solving necessary to secure cost-optimised local transition pathways. We are aware of examples from electricity and gas distribution businesses in the north of England engaging in collaborative design of zero carbon industrial energy infrastructure. The lack of such collaboration could potentially result in inequitable and inefficient outcomes, for example, where WPD appears to prioritise support and investment in areas with significant engineering and generation projects already underway.
- 5.3.3. WPD is proposing enhanced engagement in ED2, with additional surgeries and support both for local authorities and community energy groups, and a commitment (#9) to facilitate access to funding for community energy groups. This is in principle supportive of a just transition, but although WPD is responding to stakeholder feedback in proposing community surgeries, relying on stakeholder feedback alone to justify 60 rather than 30, or any other number, is an example of WPD not fully justifying a potentially worthwhile initiative and not attaching measurable outcomes or impacts to the activity.

5.4. Cost information

- 5.4.1. WPD proposes annual expenditure of £1,336m based on its best view of reinforcement needs in ED2, a 27% increase compared to £1,050m in ED1. The CEG has focussed on the largest categories of costs and on general trends.
- 5.4.2. On reinforcement costs, WPD has structured its approach clearly with the cost projections now based on its best view, and a higher scenario involving an additional £1.2bn of expenditure over the five years of the ED2 period. We understand WPD is not proposing any anticipatory expenditure. We note that WPD has provided an estimate of further additional costs that could result from Ofgem's Access and Forward-looking Charges Significant Code Review⁷⁵
- 5.4.3. On non-load related network investment, we note that despite a 17% increase in asset replacement costs⁷⁶, asset risk is expected to worsen by 3%. Our comments on this are covered in chapter three above (see 3.5.1.5 to 3.5.1.8).
- 5.4.4. Beyond the core asset replacement expenditure, the CEG has challenged WPD to provide justification for additional investments relating to overhead line safety, worst served customers, flood defences and a change of approach to tree trimming. We find that in some categories of discretionary expenditure, WPD's justification is wholly reliant on stakeholder support for proposals put forward, without demonstrating that the benefits outweigh the costs.
- 5.4.5. On IT and telecoms, substantial increases in expenditure are proposed (116% increase). We understand there are several reasons for this, including increased monitoring, digitalisation,

⁷⁵ [Network charging and access reform Significant Code Review](#)

⁷⁶ The business plan, page 139, figure 6.17

modernisation and cyber security (the latter being outside the CEG's remit⁷⁷). Our comments on justification of this expenditure are covered in chapter four (see 4.2.11.).

- 5.4.6. In terms of other cost areas, ED2 expenditure proposals are broadly flat against ED1 before consideration of efficiency or real price effects, which are discussed below in 5.5.2 and 5.5.3.
- 5.4.7. We note WPD has not made any claims for company-specific cost factors to be used in benchmarking analysis, so the CEG has had no claims to comment on. We note some cost categories are higher in some of WPD's licensed areas than others (e.g. connections and fault level reinforcement costs are more than proportionately higher in the East Midlands).
- 5.4.8. The business plan does not provide the results of any benchmarking undertaken by WPD to check the overall efficiency of the costs proposed. We discussed benchmarking with WPD and understand that analysis of ED1 data shows the company is not at the cost frontier. WPD claims to have made significant efficiencies during ED1 and identified further efficiencies which reduce the costs proposed for ED2 by £723m. The CEG has not seen how this figure has been calculated and the methodology and calculations are not explicit in the business plan, so we cannot comment on its validity.

5.5. Managing uncertainty

5.5.1. Uncertainty mechanisms

- 5.5.1.1. The CEG welcomes WPD's approach to the uncertainty mechanism on primary reinforcement and considers it cogent and well-justified. The relevant EJPs are detailed and include cost benefit analysis and deliverability assessments.
- 5.5.1.2. With regard to the uncertainty mechanism for secondary reinforcement, the CEG has not seen the detail of how the forecast and outturn load index will be assessed to ensure the investment is responding to system needs. The information provided indicates that this is a well justified uncertainty mechanism; however, further review of the detail will be needed.
- 5.5.1.3. Regarding a high case of investment, the CEG considers that WPD's plan addresses some of the issues but does not detail how the company would deliver and whether it could ramp up efficiently to high case (more than £1bn above the current plan). The CEG notes that this may have implications for bill payers as changes in the access charging by Ofgem could lead to further work and reinforcement costs would move from connecting customers to WPD and bill payers.
- 5.5.1.4. The CEG acknowledges that:
- WPD has a strong track record of delivering in ED1 during periods of rapid change;
 - there is some justification of 'deliverability' (in the details of each EJP) addressing both supply chain and people resources;
 - WPD's investment in digitalisation, smart solutions and flexibility can reasonably be expected to reduce the need for spend on some new assets (e.g. wires).
- 5.5.1.5. The CEG recommends that Ofgem stress test WPD's ability to deliver the high case investment scenario (as well as reviewing the financial scenarios).

⁷⁷ [Enhanced Stakeholder Engagement Guidance for RIIO-ED2](#), April 2021, page 12, para 3.8

- 5.5.1.6. The CEG notes that WPD’s plan does not reflect whole systems thinking in the design of the load related uncertainty mechanisms. WPD’s plan assumes the triggers of uncertainty mechanisms are independent variables, to which WPD would respond. This is distinct from WPD’s position that whole systems should be proactively developed (where valid) in partnership with other energy networks, and stakeholders, to arrive at optimal whole system outcomes. The CEG recommends Ofgem seeks more detail from WPD as to how the company proposes to use a whole systems approach to deliver better and more cost-effective outcomes specifically with regards to reinforcement for LCT connections, whether as a DSO or DNO function.
- 5.5.1.7. For all the other reopeners and uncertainty mechanisms proposed in the business plan, the CEG understands they will apply on a sector-wide basis, so we have not reviewed them in detail.

5.5.2. Real price effects

- 5.5.2.1. WPD’s proposals for real price effects (“RPEs”) are based on a cross-DNO study undertaken by the consulting firm NERA. Due to the cross-DNO nature of this work, we consider it would be more appropriate for it to be reviewed by Ofgem or the Challenge Group, hence we have not reviewed it as a CEG. We note that WPD estimates that RPE indexation will increase its allowed costs in ED2 by £309m. As Ofgem proposes to index RPEs, these costs should be either removed or included on a comparable basis across DNOs prior to any benchmarking.

5.5.3. Ongoing efficiency

- 5.5.3.1. WPD proposes ongoing efficiencies of 0.5% per year, resulting in a reduction in totex of £95m. As the study on which this was based was undertaken on a cross-DNO basis, we have not reviewed it in detail. In our view, WPD’s proposal for ongoing efficiency is lower than recent regulatory precedent.
- 5.5.3.2. We note that WPD claims to have embedded £723m of efficiencies in its cost projections for ED2 from actions already undertaken or identified within ED1. For ED2, WPD proposes a more substantial transformation of its business, including a much more thorough cross-cutting business innovation and digitalisation strategy than anything delivered in ED1. We therefore find it incongruous that the scale of efficiencies expected in ED2 is so much lower than the impact on ED2 costs of efficiencies developed in ED1.⁷⁸

5.5.4. Early and late competition

- 5.5.4.1. WPD notes that none of its projects exceed the thresholds for early⁷⁹ or late competition⁸⁰ set by Ofgem⁸¹. As a CEG, we have encouraged WPD to consider where it could utilise competition rather than where it is required to do so. We therefore welcome the proposal to adopt the early competition approach for investment in the connection to the Isles of Scilly⁸².
- 5.5.4.2. In terms of its broader approach to competition in the delivery of its business plan, WPD proposes to continue its model of ‘mainly insourcing’. This has historically worked well but may face new challenges in ED2 for example in responding to changes in skills needed. One implication is WPD

⁷⁸ The impact of ongoing efficiency would be expected to be lower than that of current and past efficiencies, for example due to ED2 being five years rather than eight years for ED1 and to ongoing efficiencies on average only providing benefits for half the period. On this basis, all else being equal, ongoing efficiencies might be expected to be about 30% of embedded efficiencies from ED1 (2.5 divided by 8 is approximately 30%).

⁷⁹ Early competition occurs prior to the detailed design, surveying and consenting phases of a large project

⁸⁰ Late competition is later on in a project programme, prior to physical construction

⁸¹ The business plan, page 169, para 8.14

⁸² Ibid. para 8.12

will therefore be more dependent than other DNOs on internal resource for new thinking, which emphasises the importance of pushing further on diversity and collaboration to ensure that the company is equipped to deliver the transformative change it targets.

- 5.5.4.3. WPD's approach to purchasing IT solutions acknowledges new cyber security challenges but does not embed the wider implications of digitalisation. The CEG expects that the opportunities outlined in WPD's digitalisation strategy will create new possibilities for delivery; even where WPD is leading tool development inhouse, efficient delivery is expected to entail third-party plug-ins. Software-as-a-service models require new due diligence approaches in procurement, particularly given their treatment of data, de facto high lock-in and new subscription payment structures. WPD's business plan recognises the cyber security challenges but is silent on wider considerations.

6. Chapter six: Financial information

6.1. Overall assessment

- 6.1.1. We note WPD proposes a higher cost of capital and higher dividends. We find that the plan would have benefited from:
- committing to link dividend payments to performance;
 - proposals for how WPD would respond to adverse financial outcomes while maintaining delivery for customers; and
 - explicit consideration of longer-term financial trends.
- 6.1.2. The financial parameters of the business plan have not been a primary focus of the CEG but we recognise they have an incredibly significant impact on customer bills and we therefore comment from that perspective.
- 6.1.3. On the cost of capital, we note that WPD proposes a higher cost of capital than Ofgem/s working assumption. We know that Ofgem will undertake its own analysis. Ofgem's business plan guidance states any alternative cost of capital proposal put forward by a DNO needs to be reviewed for customer acceptability⁸³. We understand from WPD the impact of the company's higher cost of capital was included in the customer acceptability tests undertaken, which seems to us to be a more meaningful test than asking customers about the cost of capital separately. This suggests the business plan may have been more acceptable to customers (or at least more affordable) if a cost of capital in line with Ofgem's working assumption had been tested.
- 6.1.4. We note WPD proposes paying 5% dividend yield, which is higher than Ofgem's working assumption of 3%. We are unclear why customers should pay for additional equity issuance costs if WPD decides to pay higher dividends and are surprised there appears to be no link proposed between company performance and dividend payments, nor any recognition that variations to dividends might be appropriate to mitigate financial risks. This may reflect a gap in the regulatory framework.
- 6.1.5. We recognise WPD's proposed capitalisation ratio of 75% appears to lie within the range of WPD and industry capitalisation rates (as used in ED1 and the ratio of capex to totex for WPD, which WPD refers to as its "*natural capitalisation rate*"). It might be useful to cross-check this against analysis of longer-term trends in the natural capitalisation rate (i.e. through ED3 and beyond) and

⁸³ [RIIO-ED2 Business Plan Guidance | Ofgem](#), 30 September 2021, page 66, para 6.7

potentially against customer research on inter-generational equity (i.e. how much current customers pay compared to future customers). This is not included in the business plan but may be more appropriate for Ofgem to undertake if the intention is to establish a cross-DNO approach to capitalisation.

- 6.1.6. We have no comments on WPD's proposals for notional gearing or asset lives.
- 6.1.7. On overall financeability, the CEG notes WPD's comments that it would be sub-investment grade in some scenarios in some years⁸⁴. We find the plan could be clearer on the mitigating action that would be taken and would appreciate clarification on whether this affects WPD's promise to deliver any of the core commitments in the business plan, and if so, which ones.

7. Chapter seven: Business plan incentive

7.1. Minimum requirements

7.1.1. Ofgem seeks the CEG's views as to whether WPD's business plan fulfils Ofgem's minimum requirements for the purposes of the regulator assessing the plan for the business plan incentive. Ofgem is best placed to judge whether the company has complied with regulatory guidance, but the CEG can usefully give its thoughts on several of the criteria Ofgem will use to judge both the completeness of the plan and whether it is of satisfactory quality.

7.1.2. Completeness of WPD's business plan

7.1.2.1. Assuming the company's claim is correct that its plan contains all the material specified in Ofgem's business plan guidance and complies with Ofgem's data assurance guidance, the CEG believes:

- the plan, though very long (especially when including all the annexes) is presented in a clear and understandable way;
- the plan does explain in detail how it has been developed, tested and challenged using the ED2 enhanced engagement process. WPD developed its plan through a wide-ranging stakeholder and customer engagement exercise (see 2.2.) and was challenged by the CEG and the Challenge Group during the process. Exposure to draft business plans of other DNOs also appears to have caused WPD to rethink some aspects of its plan, and the final proposals were tested on both stakeholders and customers; and
- the final business plan does include an explanation of what has changed from the draft plan, although the explanation is quite brief.

7.1.3. CEG views on Ofgem criteria to judge whether WPD's business plan is of satisfactory quality

7.1.3.1. The company provides considerable evidence of how its proposals arose from research of the expectations and priorities of consumers and stakeholders. The company also undertook willingness to pay research and tested the final plan with stakeholders, and with customers, for acceptability and affordability.

7.1.3.2. WPD states in its plan it has a strong track record in delivering its plans and its board is satisfied that this plan is deliverable.

⁸⁴ The business plan, page 181, paras 9.37 to 9.40, and figure 9.13

- 7.1.3.3. Commitments in WPD’s plan do include proposed safeguards on delivery of the plan’s ambitions, but as we show in 3.3.1., many are backed by reputational incentives only and do not commit to measurable outcomes. This means customers may pay for these commitments through their bills but not receive all the benefits promised in the plan. This risk to customers is exacerbated by the substantial number of commitments in the plan. Depending on the challenge that Ofgem makes of WPD’s plan, particularly on totex, efficiency and the cost of capital, it might be more appropriate for more of the risk of non-delivery to lie with WPD rather than with customers.
- 7.1.3.4. The company demonstrates in its plan how it dealt with disagreements in the views of different stakeholders during the engagement process, and how it arrived at its position. In a few cases (such as the company’s proposal to be net zero in its operations by 2028), disagreements have been difficult to resolve.

7.2. Customer Value Propositions (CVPs)

7.2.1. Overall assessment

- 7.2.1.1. The CEG applauds WPD for its intentions in proposing these initiatives but believes most of the CVPs proposed are not sufficiently well-justified to receive a CVP reward at the customer’s expense.
- 7.2.1.2. Two potential exceptions are CVP-1 and CVP-5, which with further work could be worthy of reward. CVP-1 has a negative NPV but would demonstrate leadership in the government backed ‘Race to Zero’ campaign and stakeholders have expressed support.
- 7.2.1.3. WPD’s proposal in CVP-5 to offer 1.2 million customers a bespoke smart energy action plan every two years looks to be a positive proposal but needs clearer success measures, so the effectiveness of WPD’s interventions is clear and the company is encouraged to work with others that have expertise in this field.
- 7.2.1.4. The activities associated with CVP-2 (partnering with every local authority in the region to develop local area energy plans) and CVP-3 (community energy engineers) are important to delivery of aspects of WPD’s plan and should remain, but this does not in itself justify the claim for CVP rewards.
- 7.2.1.5. CVP-4 (decarbonised communities/solar PVs on schools) and CVP-6 (annual £1m community matters fund) are good examples of how WPD can demonstrate corporate social responsibility by its shareholders funding these initiatives. The CEG believes the case is not made for the company to receive a CVP reward for these two initiatives.
- 7.2.1.6. By way of context regarding its CVP proposals, it is worth noting that although WPD claims in its business plan that each of the CVPs is viewed as acceptable by around 80% of customers in its latest research, in fact only about 65% of customers support each CVP⁸⁵ at their cost impacts. In each case, around 30% (particularly for DE socio-economic groups, those aged 16-29 and those struggling financially) would prefer to see the CVP reduced and a potentially lower bill. This does not compare well with the c80% acceptability of the overall plan and reinforces the need for close scrutiny of these proposals from a value for money perspective.

⁸⁵ The business plan, supplementary annex 5, page 176, section 7.81

7.2.2. The CVPs

CVP-1: Ensure WPD is a net zero business by 2028

- 7.2.2.1. Noting that stakeholders pressed WPD for this initiative, the CEG supports the ambition of this CVP. Given the negative cost/benefit case we consider further work should be undertaken to refine the detailed plans and identify further cost savings to ensure value for money for customers. We note WPD relies heavily on willingness to pay to support the case for this CVP and goes beyond its use of WTP elsewhere in the plan, where it only uses WTP to show customers' priorities and views of options but not as a basis for charging more⁸⁶.
- 7.2.2.2. The CEG has concerns over the use of WTP data unless it is supported/triangulated by other data. Consultants Bonamy Finch have assessed the use of WTP across the full plan and have concerns regarding the way it has been used for cost benefit analysis; where it has been used for prioritisation and levels of ambition – as WPD has stressed has been its primary use – they are comfortable that it has been used appropriately.
- 7.2.2.3. The case for this CVP only becomes NPV positive by WPD applying a median WTP value multiplied by the customer base. In addition, the CEG still questions the appropriateness of customers paying for carbon offsetting as proposed in this CVP.

CVP-2: Proactively partner with every local authority in the region to help develop local area energy plans

- 7.2.2.4. The CEG agrees with the need for WPD to collaborate closely with local authorities, particularly as the company identifies savings are available by doing so. These activities are important to the delivery of aspects of WPD's plan and should remain, but this does not in itself justify the claim for CVP rewards. It is not clear why customers should pay extra for a CVP reward for the company to do this.
- 7.2.2.5. The absence of a clear outcome from this CVP is a further issue.

CVP-3: Establish Community Energy Engineers

- 7.2.2.6. The CEG is pleased to see WPD seeking to support community energy schemes, based on stakeholder feedback. As in the case of CVP-2 above, the CEG notes these activities contribute to the delivery of WPD's core business plan but does not believe the case is made for customers to pay more as a CVP reward. If the proposal is taken to be a commitment to deliver connection of, or flexibility provision from, 30 schemes a year rather than committing to employ four engineers, then it does provide a measurable outcome. However, although WPD rightly only claims a small proportion (10%) of the benefits to take account of deadweight effects, most of the benefits that WPD does claim are the costs of funding the community shares and of employment in delivering the community scheme, which may be regarded as costs rather than benefits. Excluding these elements, the £3m benefit threshold that Ofgem requires would not be passed.

CVP-4: Build decarbonised communities and local energy schemes/solar PV on schools

- 7.2.2.7. The CEG applauds WPD for seeking to support communities, particularly in areas of high economic deprivation. It is not clear why customers should pay for a CVP reward for an activity that shareholders may fund as part of the company's demonstration of social responsibility.
- 7.2.2.8. It is also not clear that alternative approaches, such as partnering with local groups and authorities, or the risks have been considered. This might ensure that WPD's help could be targeted in a way

⁸⁶ Ibid. page 119, para 5.67

that complements other players in the community and helps ensure appropriate sites and equipment are selected and maintained over the longer term. Without this, schools might be left to pay for and manage the longer-term replacement of the equipment or there is a risk of investments being made at schools which are subsequently replaced or rebuilt.

CVP-5: Offer 1.2 million Priority Services Register customers a bespoke smart energy action plan every two years

- 7.2.2.9. The CEG supports this CVP in principle and welcomes WPD's desire to help vulnerable customers benefit from the transition to smart energy. We would like to see further thinking on a number of issues before a CVP reward was concluded.
- 7.2.2.10. WPD should clarify how it would try to maximise the benefit of the CVP by effective targeting of customers and how it might work with and complement the skills and activities of other players who also work with vulnerable customers.

CVP-6: Deliver an annual £1 million 'Community Matters' Fund, funded entirely by shareholders

- 7.2.2.11. The CEG applauds WPD for its proposal to provide shareholder support for the community but we disagree it is appropriate for a CVP reward at the expense of WPD's customers.
- 7.2.2.12. WPD will presumably seek reputational benefit from the community matters fund as evidence of its corporate social responsibility.
- 7.2.2.13. Many other companies, including regulated monopoly businesses, offer shareholder funded community initiatives, including similar funds to that proposed by WPD, but do not seek or receive regulator endorsed financial benefit at the expense of their customers.
- 7.2.2.14. WPD's description in its business plan that the fund is "*funded entirely by shareholders*" is undermined by the proposal of a CVP and could be misleading to readers.

Annex 1: About the CEG @ WPD

The Customer Engagement Group provides independent scrutiny of, and challenge to, WPD's business planning and decision-making process for RII0-ED2, reflecting the needs and preferences of existing and future consumers and promoting good value customer outcomes. We focus on affordability, the protection of consumers in vulnerable circumstances, the environment, sustainability and the transition to a low carbon energy system.

Ways of working

Following induction of its members, the CEG considered the strategic aspects of the elements feeding into the business plan together. This was followed by specific sub-groups exploring in more detail specific key topic areas, which were brought back to the CEG for discussion and debate.

The CEG operated under normal business governance with formal notes of all meetings and summary notes placed on the CEG website for customer and stakeholder information. All members were required to notify the Chair of conflicts of interest as a standing agenda item at all full CEG meetings. Meetings were either open (with WPD or stakeholders present) or closed, and we specifically engaged with a few key stakeholders directly, including the Welsh Government and a major union.

CEG components required of the CEG members were:

- to challenge on behalf of consumers;
- to act in an independent capacity with the availability to meet the time commitment;
- seniority and key interpersonal skills (e.g. cooperation/communication/negotiation skills - building agreement on complex issues);
- experience of robust governance procedures and no serious conflicts of interest;
- commercial and outputs minded with energy/regulated sector experience;
- knowledge of stakeholder engagement and/or customer research; and
- minimum of three strong expertise areas (against the 24 knowledge areas that WPD insists the CEG must cover)⁸⁷.

Current and past CEG @ WPD members

- | | | | |
|-----------------------|--------------|---------------------|------------------------|
| • Duncan McCombie | Chair | • David Mitchell | |
| • Jocelyn McConnachie | Deputy Chair | • Lesley Queripel | |
| • Lucy James | Secretariat | • Matthew Rhodes | |
| • Martin Crouch | | • Simon Roberts | |
| • Caroline Farquhar | | • Pamela Taylor | |
| • Ian Graves | | • Tony Smith | Joined November 2020 |
| • Merlin Hyman | | • James Heapey MP | Resigned December 2019 |
| • Felicity Jones | | • Lewis Shand Smith | Resigned January 2021 |
| • Miranda Mayes | | | |

⁸⁷ The business plan, page 121, figure 5.18

Annex 2: CEG @ WPD - ‘well-justified’

Ofgem has been clear that one of the key parts of the CEG’s role is to consider whether the business plan is well-justified, alongside other considerations such as whether the plan is sufficiently ambitious and innovative and whether it ultimately will deliver good value outcomes for customers.

In the absence of an over-arching definition of what constitutes a well-justified plan, we have developed a consistent and coherent set of criteria that we have applied in assessing WPD’s plan. We have drawn upon the numerous references to justification in Ofgem’s RIIO-ED2 Business Plan Guidance, some of which provide more specific lists of criteria for particular cases. We have also drawn on assessments of the criteria implicit in Ofgem’s decisions in the RIIO2 determinations for gas distribution and transmission.

Tests for “well-justified”

Based on analysis of the RIIO-ED2 Business Plan Guidance, experience from RIIO2 for gas distribution and transmission and the CEG’s own expertise, we suggest proposals in the business plan can be considered to be well-justified if the business plan provides evidence that:

1. the actions are appropriate for WPD to undertake as a distribution network operator (“DNO”) and that electricity distribution customers should fund them;
2. WPD has considered alternative approaches to meet its objectives and explained why the proposed approach is best;
3. the costs are efficient and that the benefits of the actions credibly outweigh the costs (recognising benefits may not all be quantifiable and may be uncertain);
4. a representative sample of customers, as well as stakeholders, support the business plan when properly informed of the costs and benefits;
5. there are proposals for how the initiatives included will be treated in the price control so customers are not exposed to unacceptable risks (e.g. paying and not getting the benefits); and
6. any assurance undertaken or commissioned by WPD has been taken into account.

All criteria (where relevant) need to be met for the proposal to be well-justified.

For proposals which go beyond business as usual but which are **non-discretionary**, criterion 1 is not relevant and criterion 4 and the benefit assessment in criterion 3 are less relevant. Instead, more weight should be placed on criterion 2, which requires alternative approaches to be tested. (Non-discretionary meaning there is no choice for it not to be done, but there may well be a choice of how, or when to deliver.)

For **discretionary** proposals (that WPD chooses to do): the criteria require not just that proposals are related to a desirable aim, but that the specific benefits they deliver outweigh the costs and are better than alternative approaches the company could have taken. This will generally only be possible if the proposals include measurable benefits. The justification must also consider benefits that accrue to WPD. For example, proposals to meet with stakeholders more often should include recognition that this should generate improved information which should make WPD’s (and the stakeholders’) future decisions more effective.

We recognise the CEG is better placed to assess some parts of these criteria than others. For example, in relation to criterion 3, the CEG assessed whether benefits are set out and whether WPD considered cost efficiency but did not get into the detail of cost benchmarking as Ofgem has better access to the information needed to do this. For criterion 5, the CEG reviewed whether WPD considered this and made a proposal which protects customers but did not probe the detail of price control design.

In principle, similar criteria could be used to assess whether the exclusion of potential actions that have been omitted from the business plan is well-justified. This is less relevant in the case of WPD’s business plan.

The criteria make no distinction as to the source of a proposal, whether it stems from the learning from the company’s research and engagement or from WPD’s other sources of experience and intelligence combined with data and analytical expertise to specify key aspects of the plan. We consider all of these to be equally relevant.

How to meet these criteria

To elaborate on the criteria above, the following table sets out illustrations (without trying to be exhaustive) of how WPD might be expected to meet these six criteria:

What	How
1 – appropriate	Considered reasoning directly addressing why WPD should undertake this activity and why electricity distribution customers should be asked to fund through bills.
2 – alternative options	Identification of alternative approaches that could have been taken, including different types of approach as well as scales of activity. Reasoning as to why the proposed approach is the best option, potentially based on cost benefit analysis as developed for criterion 3.
3 – benefits greater than costs	Clear identification of the benefits and costs of specific proposals, proportionate to their magnitude (e.g. low effort for costs < £1m). Either monetised benefits, or at least a plausible case that the benefits are worth the costs (e.g. not spending £1m to benefit 100 households). Consideration of cost efficiency based on benchmarking of peers (not only DNOs) and continuous improvement. Demonstration benefits to WPD are factored into the business plan
4 – supported	Having set out clearly for stakeholders and customers what the proposed commitments will deliver for them and cost, high degree of acceptance of the overall plan from a representative sample of customers and stakeholder support for specific proposals.
5 – price control mechanics	Explanation of how the commitments will be translated into output delivery incentives (“ODIs”), price control deliverables (“PCDs”), licence commitments or otherwise reported on by WPD. Explanation of the consequences of not delivering / falling short or exceeding the target.
6 – independent assessment	Where available, CEG access to independent assessments, benchmarking evidence and assurance reports. These should also be referenced in the business plan

Application by the CEG

These criteria were developed by the CEG and discussed with WPD and Ofgem, who both supported this approach.

They are consistent with the evaluation set out in this report as well as the CEG’s findings on previous versions of WPD’s business plan. In addition to using the criteria to assess whether proposals in WPD’s plan are well-justified, the CEG has assessed whether the proposals are sufficiently broad and ambitious and offer good value outcomes for customers.

It is also important to recognise the limitations of these criteria. In particular, it is possible for a business plan to propose the “right” outcomes but not provide evidence these justification criteria have been met. During business plan development, the CEG challenged WPD to improve its justifications, following which the company has produced Supplementary Annex 2a to collate the reasoning for key elements of the business plan. Nonetheless, we still consider that even if the justification is incomplete, this does not itself prove that proposals are not in customers’ interests.

Annex 3: Which core commitments are outcome-based rather than input/output?

The CEG view is that, where possible, commitments should be to deliver benefits for: customers; the environment or society, rather than committing to spend a sum of money or to do a particular amount of work.

The table below reviews each of WPD's commitments against this test:

✓✓ = commitment is to deliver an outcome

✓ = commitment is based on what WPD will do but link to outcome is likely to be relatively straightforward and/or a measure of uptake is mentioned

BLANK = commitment is generally to undertake X schemes or hold Y meetings

We recognise specifying the outcomes can be difficult, so would not expect all commitments to be fully outcome based. Ofgem should pay particular attention to commitments that are both BLANK and expensive as customer investment should be able to be tied back to an outcome or positive impact for customers. The status in this table takes no account of the level of stretch or ambition, nor of other elements of justification. Some of the more ambitious commitments (e.g. commitment #1) lack clear measures; some of the least ambitious (e.g. commitment #42) are most measurable.

Key: ✓✓ Commitment is to deliver an outcome ✓ Commitment is based on what WPD will do but link to outcome is likely to be relatively straightforward and/or a measure of uptake is mentioned BLANK Commitment is generally to undertake X schemes or hold Y meetings			
Commitment		Measurable outcome	Reasoning
1	Drive the achievement of net zero across our regions sooner than 2050 in line with stakeholder plans (some areas as early as 2028), by ensuring network capacity is available.		No metric proposed (network capacity available)
2	Ensure customers are able to connect low carbon technologies quickly and easily, with the network being ready to support at least an additional 1.5 million electric vehicles and 600,000 heat pumps by 2028.	✓	Network ready rather than connections or MW
3	Make it easy for customers to adopt low carbon technologies and achieve net zero in their region much sooner than 2050, by driving the delivery of ambitious Local Area Energy Plans and proactively engaging all 130 local authorities each year via 90 local energy surgeries.		Number of surgeries rather than outcome (or even plans agreed)
4	Deliver a network to meet the evolving needs of our customers by aligning our future energy forecasts with the plans of local regions and the Electricity System Operator, by updating WPD's Distribution Future Energy Scenarios every 12 months.	✓	Updated every 12 months rather than benefit
5	Keep bills as low as possible and minimise the requirement for load related reinforcement by adopting a 'flexibility first' approach in order to maximise the utilisation of the existing network.	✓	Approach rather than savings achieved
6	Unlock capacity from the existing grid and therefore avoid the need for reinforcement, by stimulating the development of flexibility markets and implementing simple, fair and transparent rules for procuring flexibility services, with a six-monthly tender and exceptional customer satisfaction for flexibility services.	✓	Approach rather than savings achieved
7	Deliver solutions that achieve the greatest social benefit to customers by utilising a whole system approach for major reinforcement to improve network efficiency. We will undertake three regional collaboration trial schemes by 2025 involving gas, electricity, water, waste, transport and heating sectors.		Undertake three trials rather than benefits
8	Actively support the expansion of green, renewable energy generation and help local communities to decarbonise and lower their bills, by connecting at least 30 community energy groups to the network each year. We will hold 60 community energy surgeries per year and provide a dedicated WPD community energy representative to assist with connection and flexibility offers.		Number of surgeries rather than outcome
9	Support a growth in community energy schemes by facilitating their access to available funding streams.	✓	Approach rather than benefits unlocked
10	Achieve net zero in our internal business carbon footprint by 2028 (excluding network losses) and follow a verified Science Based Target of 1.5°C to limit the climate impact of our activities.	✓✓	
11	Avoid damage to the environment by reducing the volume of oil leaked from fluid filled cables by 50% by 2028 and replacing 90km of the worst leaking circuits with non-oil alternatives putting WPD on target to remove all oil-filled cables by 2060.	✓✓	Volume of oil is outcome, km replaced is not
12	Significantly reduce our impact on climate change by delivering a 20% reduction in SF6 losses and drive industry partners to develop technological alternatives to reduce overall volumes of SF6 on the system.	✓✓	
13	Significantly reduce the environmental impact of our operations by achieving zero waste to landfill by 2028 (excluding hazardous waste) and delivering an overall 30% reduction in tonnage of waste produced.	✓✓	
14	Improve visual amenity by removing at least 50km of overhead lines in Areas of Outstanding Natural Beauty and National Parks.	✓	Km of overhead line removed rather than benefit

Key:			
	✓✓	Commitment is to deliver an outcome	
	✓	Commitment is based on what WPD will do but link to outcome is likely to be relatively straightforward and/or a measure of uptake is mentioned	
	BLANK	Commitment is generally to undertake X schemes or hold Y meetings	
Commitment		Measurable outcome	Reasoning
15	Achieve a 10% net gain in biodiversity (in line with nationally recognised assessment tools) for new major projects and for selected primary and grid substation sites.	✓	10% improvement is positive but scope unclear (selected sites)
16	Keep bills for customers low by delivering an additional stretch efficiency saving of £95m through RIIO-ED2 (on top of £723m of efficiencies already included in the plan) by utilising innovation to improve our processes and show a positive carbon impact.	✓✓	Measuring difficult
17	Enhance access to data that is tailored to the individual needs of our customers, by making 60% of WPD's network data available via an interactive Application Programming Interface.	✓	Data available rather than used
18	Ensure customers are not left behind in the smart energy transition by offering at least 600,000 Priority Services Register customers a bespoke smart energy action plan each year.	✓	Plans offered not benefits
19	Support at least 113,000 fuel poor customers to save £60 million on their energy bills over RIIO-ED2.	✓✓	scored for £60m saved not for 113,000 customers
20	Expand the reach of our Priority Services Register to at least 75% of total eligible customers and 80% of customers with critical medical dependencies to ensure those in greatest need receive targeted support services. This will include registering at least 50,000 additional 'hard-to-reach' customers each year.	✓✓	
21	Achieve a 'one-stop-shop' service so that customers only have to join the Priority Services Register once to be registered automatically with their energy supplier, water company, gas distributor and telecommunications companies.	✓✓	Available, not used, but ok
22	Maintain high quality data to allow us to deliver bespoke support to customers in vulnerable situations by proactively contacting over two million Priority Services Register customers once every two years to remind them of our services and update their records (with 60% via direct telephone call).	✓✓	
23	Support and add significant value to our local communities via a 'Community Matters' social initiative associated with the smart energy transition, vulnerability, environment and sustainability. This will include a shareholder funded annual £1 million community support fund and 1,000 volunteer days per year for WPD staff to support local causes.	✓	Spend £1m not benefits delivered, score as shareholder funded
24	Deliver enduring, long-term support to our communities by publishing an updated WPD Social Contract and performance report every year and maintain our prime Environmental, Social and Governance rating.	✓✓	Rating is positive, report is not
25	Build decarbonised communities and local energy schemes by providing £540,000 shareholder funded support per year to install solar PV on schools in areas of high economic deprivation.	✓	Spend £540k not benefits, score as shareholder funded
26	Deliver exceptional service levels by achieving an overall average customer satisfaction of 93% or higher by the end of RIIO-ED2, with separate reporting for emerging technology customers.	✓✓	
27	Ensure a speedy telephone response to customers by answering calls within an average of four seconds and maintain an abandoned call rate of less than 1%, within our UK based, in-region Contact Centres.	✓✓	
28	Ensure a speedy social media response to customers by replying to enquiries within an average of five minutes and Webchats in an average of less than a minute, 24 hours a day	✓✓	
29	Provide greater insight on our planned work activities and interruptions on our network by creating an online viewer.	✓	Viewer exists, not is used
30	When things go wrong ensure we put things right very quickly, by resolving at least 90% of complaints within one day and 99% of complaints within 25 days	✓✓	

Key: ✓✓ Commitment is to deliver an outcome ✓ Commitment is based on what WPD will do but link to outcome is likely to be relatively straightforward and/or a measure of uptake is mentioned BLANK Commitment is generally to undertake X schemes or hold Y meetings			
	Commitment	Measurable outcome	Reasoning
31	Make it as easy as possible for customers to apply to connect individual domestic low carbon technologies by providing a same day connections response via an online self-assessment tool	✓	Tool exists, not is used
32	Provide quicker and cheaper connections options for customers by increasing the number of flexible connection offers made, ensuring 100% of schemes receive a flexible alternative to reinforcement where the reinforcement cost is >£75k for LV, 11kV and 33kV connections and >£100k for 66kV or 132kV connections and/or where works will take more than 12 or 18 months respectively to complete.	✓	Offers made not taken
33	Deliver improved network reliability where on average power cuts are better than one interruption every two years lasting less than 22 minutes (12% reduction in customer interruptions (frequency) and 16% reduction in customer minutes lost (duration)), utilising vulnerable customer data to prioritise network improvement schemes.	✓✓	
34	Improve the service for at least 8,260 Worst Served Customers by undertaking 70 schemes		70 schemes not worst served customers left
35	Counteract deterioration of network assets through an investment of £216 million per annum, delivering a 22% change in risk to keep network risk at similar levels to the start of the price control period.	✓✓	
36	Reduce the flooding risk at key sites by undertaking 102 flood defence schemes and engage stakeholders to reduce the need for new assets in flood risk areas.		102 schemes not committing to protect to a risk level
37	Increase the safety of around 200,000 children by delivering 780 schemes to underground, insulate or divert overhead lines that cross school playing areas.		780 schemes not risk reduced
38	Keep our children safe by sending electrical safety education packs to every primary school in WPD's region and educate at least 80,000 children per year via direct learning.	✓	Every school not risk reduced
39	Reduce the risk of data loss or network interruption from a cyber-attack by continually assessing emerging threats in order to enhance our cyber security systems.	-	No metric – not in CEG scope
40	Reduce the risk of disruption to our operations and enhance the resilience of our IT network security as we deliver greater digitalisation, by increasing levels of threat monitoring, prevention and alerting systems, and upgrading our disaster recovery capability to ensure continuity of our operations.	-	No metric – not in CEG scope
41	Demonstrate exceptional and embedded employment practices by achieving Gold accreditation with Investors in People by the end of RIIO-ED2.	✓✓	
42	Achieve year-on-year improvements to the levels of diversity within the business and publish an annually updated Diversity, Equity and Inclusion Action Plan	✓✓	