

Customer Engagement Group (CEG): Western Power Distribution

Onboarding Session - Thursday 28th March 2019



Agenda for the day:

9.00-9.15	Introduction and welcome to CEG <ul style="list-style-type: none"> Members getting to know each other 	Duncan McCombie (CEG Chair) and members
9.15-9.30	The induction process	Alex Wilkes (Stakeholder Engagement Manager)
9.30 – 10.30	Introduction to WPD <ul style="list-style-type: none"> What we do/how/areas covered Business culture, staff & structure Commitment to engagement Who are our customers Key considerations for the future 	Phil Swift (Chief Executive)
10.30-11.00	Business KPIs, regulatory reporting and incentives <ul style="list-style-type: none"> How we're measured Standards and obligations Intro to existing RIIO-ED1 Plan Staying top of the charts 	Andrzej Michalowski (Regulatory Planning Manager)
11.00-11.45	Travel	
11.45-12.45	Site visit – Leicester Primary <ul style="list-style-type: none"> Hand-on visual / explanation of network operations Power cuts, connections and major projects overview Staff structure at depots and ways of working 	Simon Pett (Network Services Manager, East Midlands) Patrick Booth (Distribution Manager – Projects) Steve McRobie (Project Engineer)
12.45-13.30	Travel	
13.30-14.30	Lunch	
14.30-14.45	An introduction to the role of Ofgem	Martin Crouch & Pamela Taylor (CEG members)
14.45-15.45	Regulatory overview and intro to RIIO framework <ul style="list-style-type: none"> Why we're regulated How we make funding decisions and how we're measured RIIO Accounts – delivering value Current ED1 Plan and structure RIIO-ED2 and what's changed 	Paul Branston (Regulatory & Government Affairs Manager)
15.45-16.00	Wrap-up and reflections from the day	Duncan McCombie (CEG Chair)

Welcome from the Chair:



"I am delighted you have agreed to become a member of the Customer Engagement Group focused on Western Power Distribution's RIIO-ED2 strategic business plan preparations and submission.

The work of our group is essential to ensuring customers and stakeholders views and voices are at the heart of the creation and development of the business plan.

We are fortunate to be able to call upon recognised experts like you, who are willing to help seek assurance and deliver challenge to change customers lives for the better.

On behalf of everyone on the Group, thank you for joining us."

Duncan McCombie
Chair, Customer Engagement Group
Chief Executive, YES Energy CiC



The induction process:

Alex Wilkes

Stakeholder Engagement Manager, WPD

AGENDA

- Quick intro to the Stakeholder Engagement team
- CEG – how we've arrived at this point
- Objectives of the onboarding days

WPD's Stakeholder Engagement team

- Responsibilities:

Stakeholder Engagement

- Strategy and annual plan
- All core activities (e.g. Customer Collaboration Panel, annual stakeholder workshops)
- Ofgem's annual incentive scheme
- RIIO-ED2 engagement programme

Consumer Vulnerability

- Strategy and annual plan
- Delivery of WPD's 17 social obligations commitments (RIIO-ED1 business plan)
- 16 core schemes (covering PSR and fuel poverty) – deliver savings of c.£6 million a year to customers

Digital Communications

- WPD's website and apps
- Strategy and annual plan
- Continual cycle of new developments e.g: *new digital engagement panel, "Flexible Power website and maps, storm mode, connections portal etc*

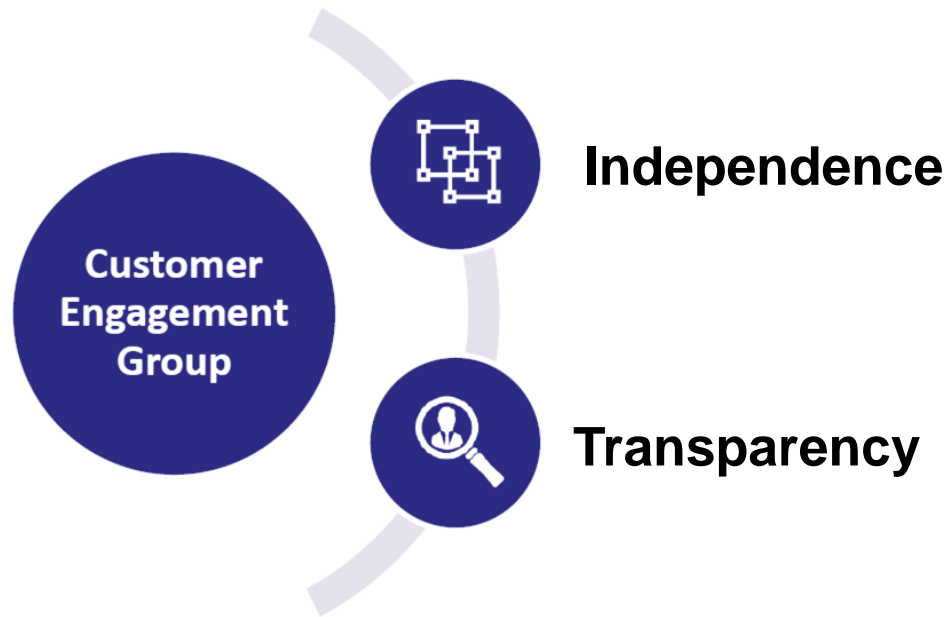
- Centrally coordinated, locally delivered approach to engagement
 - >20,000 stakeholders engaged by WPD in the last year
- Engagement must lead to action
 - >200 positive outputs delivered in the last year
- Focussed on delivering the best engagement programme in the UK across the utilities sector
 - Rated number one by Ofgem for 7 consecutive years

CEG – how we’ve arrived at this point

- Our mentality: You can't have the best RIIO-ED2 Business Plan without the best Customer Engagement Group
- First DNO to appoint an Independent CEG Chair in November 2018
- First DNO CEG complete and underway
- A 6 month process to this point, with robust, independent scrutiny at every stage
- A particular type of member sought:
 - Senior, high-calibre individuals
 - Who at the same time remain strongly “in touch” (via first hand insight) with the needs of the consumers they are there to represent
 - Also with a strong understanding of Ofgem’s requirements and the RIIO price control process as a whole

Setting up the CEG

- Two key principles identified to exceed Ofgem's requirements:



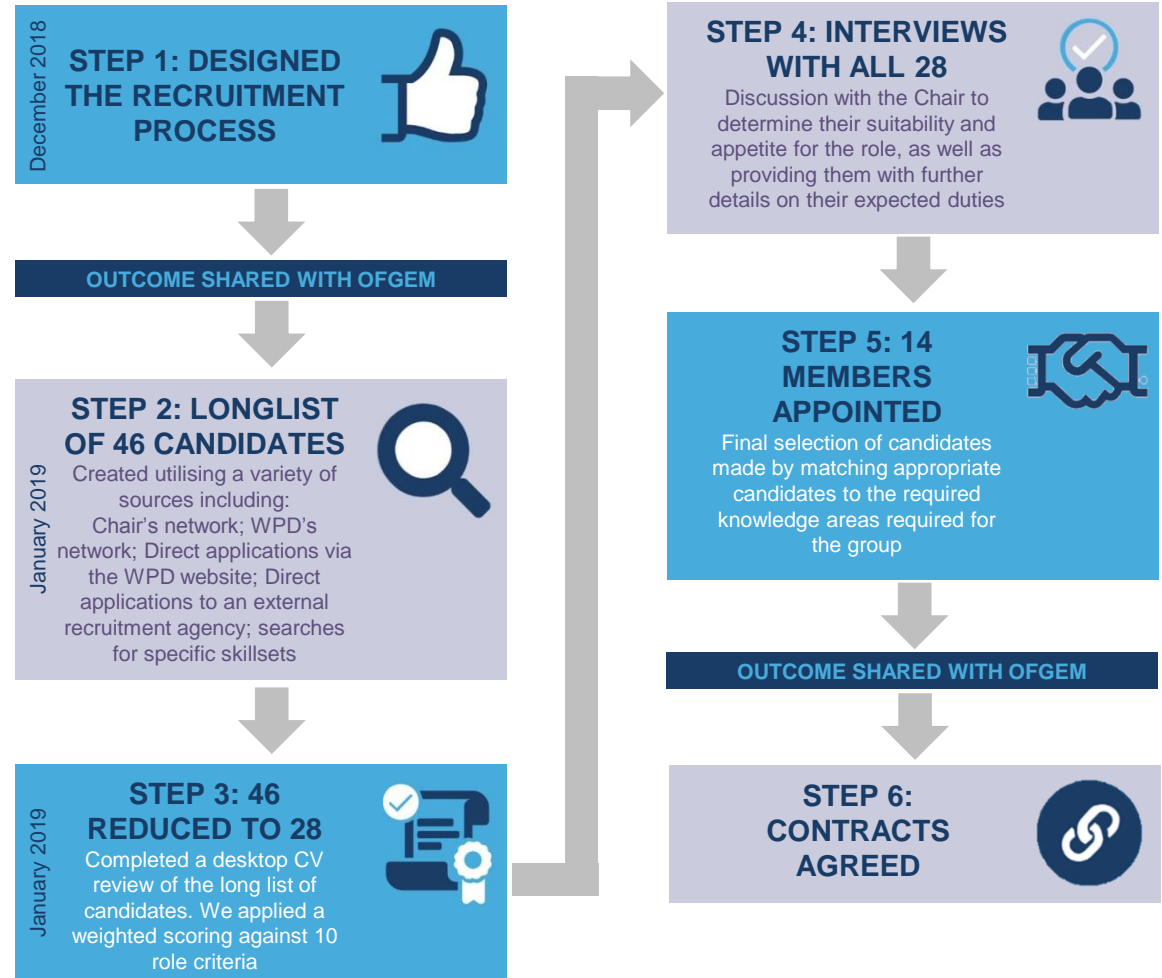
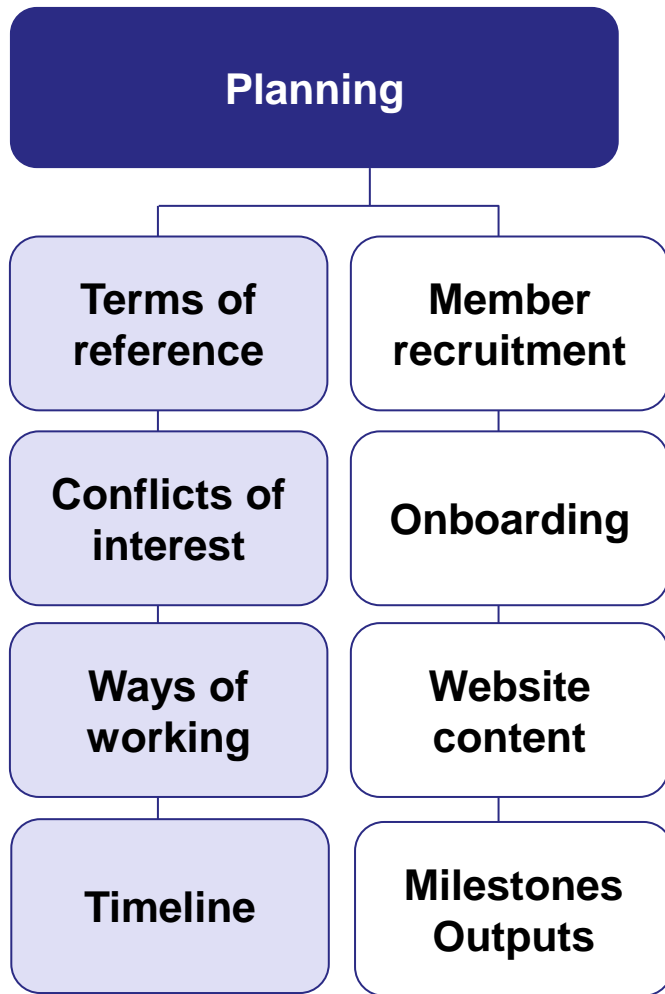
The CEG's structure, membership and 'ways of working', must demonstrate the group's unquestionable independence from WPD

This independence must be clearly visible, with WPD taking all efforts to be transparent in how the group is formed, how it operates, and essentially, the value it delivers. The CEG will also ensure robust evidence of independence in actions

Key driver

CEGs are an essential feature of Ofgem's RIIO2 enhanced engagement requirements; **best-in-class companies will outperform in this area**

Recruitment



To demonstrate value for money, we will **build a consistent method of evaluating the consumer benefit delivered** as a result of the CEG's challenge (vs its cost)

MEMBER EXPERTISE

- For the CEG to holistically scrutinise and challenge, the expertise of members must cover all relevant areas, so we set 24 criteria for members
- Each member had to cover at least three “strong” knowledge areas
- All areas had to be covered at least three times
 - Ensure coverage at every meeting
 - Ensure a diversity of opinion (would it be sufficient to have WPD’s vulnerability strategy, for example, reviewed by only one person with expertise in that area?)
 - Smaller CEGs elsewhere in the industry will struggle to do this

Knowledge & expertise matrix		Number of individuals
Customers	Customer research / representation	7
	Stakeholder engagement	10
	Major users	3
	Needs of current and future customers	4
	Vulnerable customers	5
	Fuel poverty	4
	Regional outlook / local issues	6
	Local Government or LEPs	3
Future energy systems	Energy system transition (DSO)	8
	Innovation	7
	Future energy scenarios	7
	Low carbon technologies e.g. EVs	6
	Distributed Generation	8
	Energy storage	5
	Community Energy and non-traditional business models	6
	Sustainability	7
Traditional energy systems	Energy supply	3
	Wider utilities sector (gas / water)	8
	Electricity transmission	4
	Electricity distribution (technical understanding)	6
	Environment (incl. decarbonisation)	6
	Resilience	5
	Regulatory framework / price control planning	10
	Outputs and expenditure	6

THE ONBOARDING PROCESS

- 28th March 2019:
 - Provide an understanding of WPD's operations and the regulatory process
 - Opportunity for members to get to know each other
 - Meet key WPD staff who will be heavily involved in the RIIO-ED2 process
- 29th April 2019:
 - More granular view of key WPD services and priorities (e.g. DSO)
 - Presentation from Sustainability First and Citizens Advice (building a social contract)
 - Discuss and agree the CEG's ways of working
 - The CEG's role and how members will contribute
 - Rules of the CEG and associated policies and terms of reference
 - Immediate priorities and agenda setting
- Ofgem were invited to take part in the onboarding process but are more likely to attend the inaugural meeting in June 2019

Introduction to Western Power Distribution (WPD):



Serving the Midlands, South West and Wales

Phil Swift

Chief Executive, WPD

AGENDA

- Introduction to WPD – what we do
- WPD's culture and staff structure
- Current performance (snapshot)
- Building a network for the future (DSO transition)
- Stakeholder engagement

WPD HISTORY

- **1990:** Privatised as SWEB, with Supply, Distribution, Metering and ancillary businesses (contracting etc)
- **1995:** Acquired by Southern Company (plus PPL) who sold ancillary businesses
- **1998:** PPL takes majority stake, Southern retain operational control
- **1999:** Sold supply business and 'SWEB' name to EdF. Established 'WPD' name
- **2000:** Acquired Hyder plc, retaining electricity distribution and selling balance
- **2002:** PPL acquired remaining 49% of WPD and full control
- **2011:** Acquired Central Networks from Eon (Midlands Electricity and East Midlands Electricity)
- **2013:** Only DNO group to be fast tracked in RIIO process

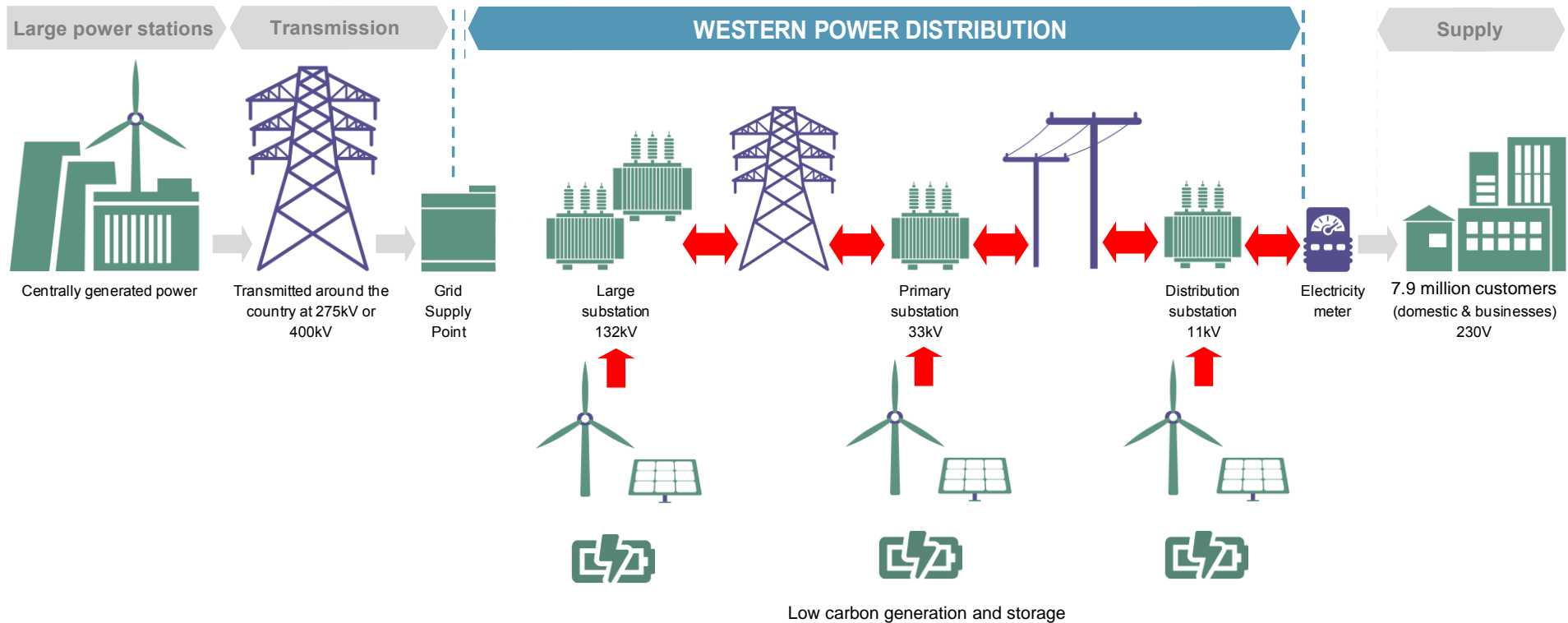
WPD OVERVIEW

- **7.9 million customers**
- **55,500 km² service area** covering the Midlands, South Wales and South West
- **30% of the UK Distribution assets**
- **6,500 staff**
- **Owned by PPL Corp**



OUR ROLE

- We operate the local electricity network
- We are a Distribution Network Operator (DNO), maintaining, extending and fixing the network
- **We are transitioning to become a Distribution System Operator (DSO),** moving from a passive to an active network



OUR AIMS: To be the best DNO in the UK

- Particularly in respect to:
 - Customer Service
 - Reliability
 - Stakeholder engagement
 - Adaption to change (transition from DNO to DSO)(All delivered while ensuring high levels of operational safety)
- We deliver our promises
 - All 76 RIIO-ED1 commitments are being delivered
- WPD was the only “Fast Tracked” DNO in RIIO-ED1 having submitted a *“high quality, long term, well-justified business plan, with a track record of frontier performance since DPCR4”*

OUR AIMS: To deliver value for money

- For 27p per day, in 2017/18 WPD's average domestic customer received:
 - **Highest customer satisfaction in the industry** - 7th consecutive year
 - **Number one for stakeholder engagement** - 7th consecutive year
 - **Transition to a Distribution System Operator** underway and industry leading
 - **Better than target network performance** - on average customers have a power cut once in 2 years, for 26 minutes
 - **Better than target for connection 'time to quote' and 'time to connect'** - small schemes get a quote in 8 days and are connected in 42 days
 - **Supported 15,229 fuel poor customers to save over £5.4 million a year**

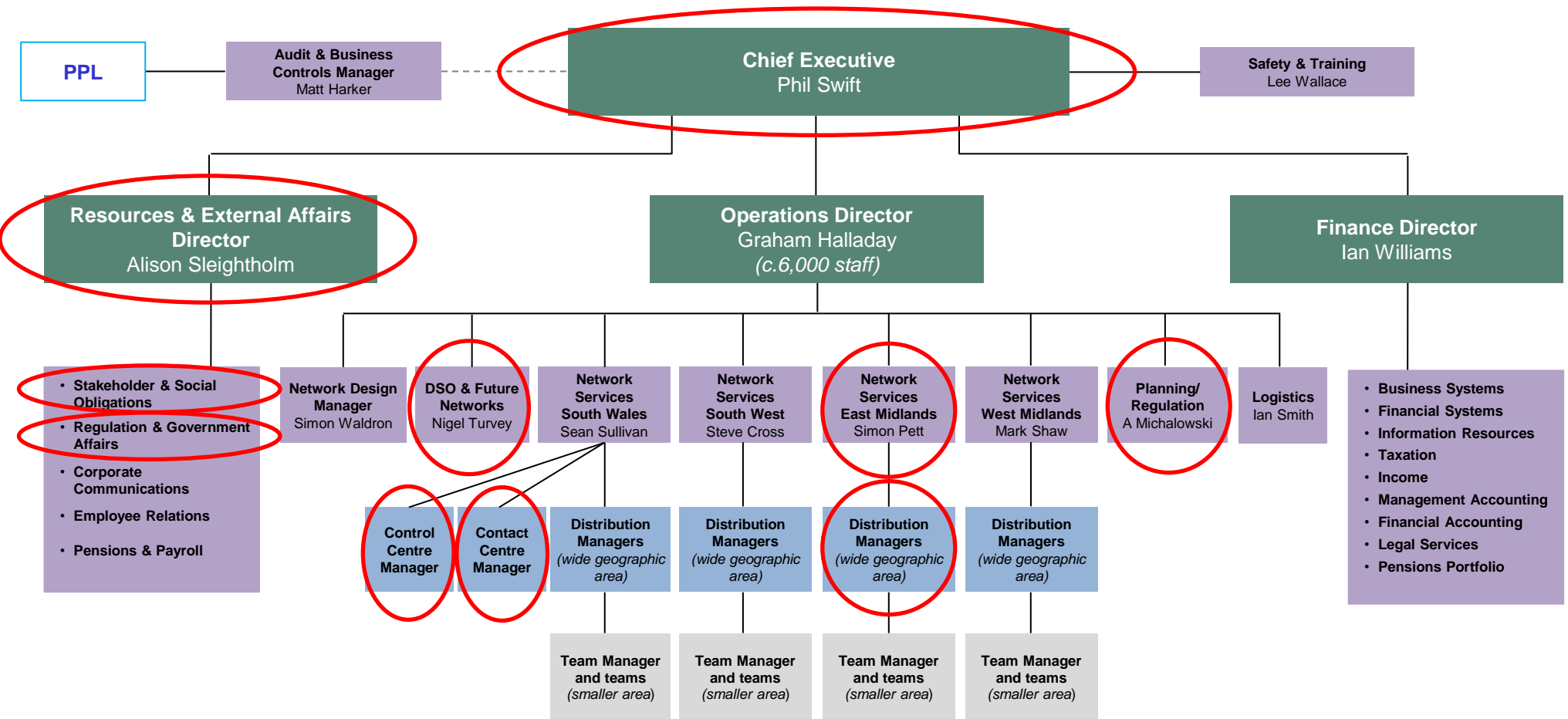
OUR APPROACH

- **“In-house” model** – we can outperform by using our own staff for day-to-day tasks
- **No diversification** – WPD is a single-purpose company
- **Low overhead costs**
- **Clear, decisive and approachable management**
- **Committed to the long-term health of the business:**
 - Apprentice programme: *long term, ahead of all other DNOs*
 - Capex programme: *implementation of agreed plan with Ofgem*
 - Continued improvements in business efficiency
- **Helpful and transparent approach** in our dealings with Ofgem and Government (BEIS)

OUR CULTURE

- High performance
- Personal responsibility
- Quick, agile decision-making, underpinned by stakeholder engagement
- Flat operational structure
- Geographically-based (local depots)

WPD's STRUCTURE



- Over the two onboarding days you will meet several of these managers

BENEFITS OF WPD'S STRUCTURE

- Flat structure allows quick communication and reporting
- Organisation based on small geographic teams, based in local depots close to their customers, with local ownership and clear accountability
- Sensible empowerment within established framework of procedures and checks
- De-centralised, except for low volume, high skill activities
- Well developed team working
- Support from safety, training and engineering specialists as required
- Results in a highly motivated, well skilled workforce driven to meet business challenges including safety

OUR TRACK RECORD

- WPD's network is performing at its most reliable level
 - Power cut duration and frequency has fallen by 62% and 36% respectively in the last 15 years
- WPD's average overall satisfaction is 89.3%
 - Higher than First Direct (86.7%), John Lewis (86.5%) and M&S Bank (86.3%)
- Investment in the network in 2017/18 was £941.8m
 - This is more than double the annual amount invested in the network at privatisation
- Whilst investment in the networks has grown substantially, the operating costs for WPD's four licence areas have decreased and domestic DUoS charges are 11.6% lower than in 2014/15
 - Charges have decreased by more than 43% in real terms since privatisation

A NETWORK FOR THE FUTURE: CONTEXT

- DSO transition is the biggest change our industry has faced
- Huge volumes of distributed generation, energy storage, electric vehicles and heat pumps connecting to distribution networks
- There are technical considerations
 - We must convert the network to enable real-time, dynamic control
 - This will enable better utilisation of existing capacity and avoid unnecessary investment
- Above all, we must understand the impacts for customers
 - The way customers use WPD's network is changing
 - We must work with them to ensure the new services and products required are customer-friendly and effective
 - We see ourselves as having a network that should facilitate emerging markets such as peer to peer energy

A NETWORK FOR THE FUTURE: ACTIONS TO DATE

- WPD lead the Energy Networks Association's (ENA) 'Energy Networks Futures Group' and the 'Open Networks Project'
 - Helping to shape, coordinate and deliver DSO transition at industry level
- WPD have made significant progress towards DSO:
 - First DNO to publish a DSO strategy and fully costed DSO forward plan prepared in conjunction with stakeholders
 - Published 'Distribution Future Energy Scenarios' and continue to work with National Grid ESO on Regional Development Plans
 - Launched 'Flexible Power' with real services procured in 2018
 - Published requirements for 2019 flexibility - 12 constraint managed zones totalling 93MW of requirement
 - 'Electric Nation' - world's largest EV related research project with 700 drivers, to prepare WPD for the mass adoption of electric cars by customers

STAKEHOLDER ENGAGEMENT: WHY WE ENGAGE

- **It's the right thing to do** (ensure we're addressing stakeholder priorities)
 - Customers pay for everything we do, so they have a right to shape our services
- **To influence our decisions (and justify our Business Plans)**
 - Planning for the future can be uncertain - ensure our plans are well justified and we're investing in the right areas
- **Hold us to account for our performance**
- **To identify & drive improvements** to our services (and opportunities for co-working)
 - Ensure we quickly respond to new priorities/concerns and changes in the ways customer use the energy network



STAKEHOLDER ENGAGEMENT: WHO ARE OUR STAKEHOLDERS?

- ANYONE = “A party who affects, or can be affected by, a company's objectives / actions”
- We segment our stakeholders & update a database of contacts annually

Customers

Domestic Business Vulnerable

Vulnerable/Hard to Reach

Priority Service Register Fuel poor Others

Connections

LV/HV/EHV demand DG Community Energy

Emergency Resilience

Local Resilience Forums Network Security Emergency Services

Energy groups

Major users Community energy Suppliers Networks & other utilities

Environment

AONB/ Forestry Low carbon Flood/ Emergency

Innovation

Low carbon Heat Smart meters Electric vehicles Storage

Government

Parish Councils Local Authorities MPs Government

Education

Academic Future Customers Schools

Investors



STAKEHOLDER ENGAGEMENT: OUR PRINCIPLES

- **Engagement is everyone's responsibility at WPD**
 - CEO leads by example
 - Centrally co-ordinated (Alex) but locally delivered (e.g. 52 WPD staff at our annual workshops)
- **Engagement leads to action**
 - We build trust by acting on feedback quickly
 - We never host talking shops
 - Seek feedback that is disruptive, challenging and not always easy to hear, but drives you to be better
 - Last year we delivered 195 outputs and improvement actions as a result of engagement
- **Engagement is intrinsic to and embedded in the way we do business**
 - We always engage with a clear purpose
 - Tailor our methods to suit the audience
 - It's a continual cycle. We consult to:
 - Identify priorities
 - To create and refine our plans to address feedback
 - To measure the impact and make further improvements

SUMMARY

- **WPD wants the best RIIO-ED2 Business Plan**
 - Fully endorsed by stakeholders
 - Fast tracked by Ofgem
- **The Customer Engagement Group will be the best**
 - High-calibre with wide-ranging expertise
 - Challenging feedback and scrutiny
 - We're the first DNO to get underway for a reason
- **Commitment from across WPD to this process**
 - You will always see the WPD staff member responsible for the area being discussed
 - Challenges will be acted on swiftly

Business KPIs, Regulatory Reporting and Incentives:

Andrzej Michalowski

Regulatory Planning Manager, WPD

ED1 - INCENTIVES

Charge Restriction License Conditions:

- Interruptions Incentive Scheme (IIS)
- Broad Measure of Customer Satisfaction (BMCS)
- Connections Times to Connect (TTC)
- Connects Incentive on Customer Engagement (ICE)
- Losses Discretionary Reward
- Network Innovation Allowance (NIA) / Network Innovation Competition (NIC)
- Efficiency / Totex Incentive Mechanism

Statutory Instruments:

- Guaranteed Standards of Performance (GSOPs)
- Connection Guaranteed Standards of Performance (GSOPs)

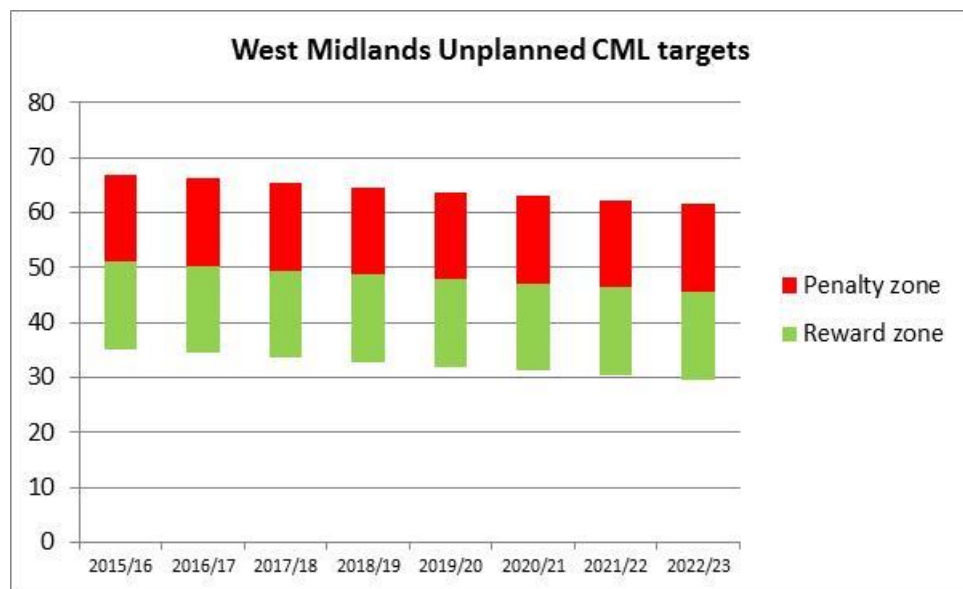
ED1 – INCENTIVES – IIS (Value +/- £55.8m pa)

Measures

- Customer Interruptions (CIs)
- Customer Minutes Lost (CMLs)

Targets

- Unplanned element specified in CRC 2D
- Planned element, 3 year average lagging by two years (weighted 50%)

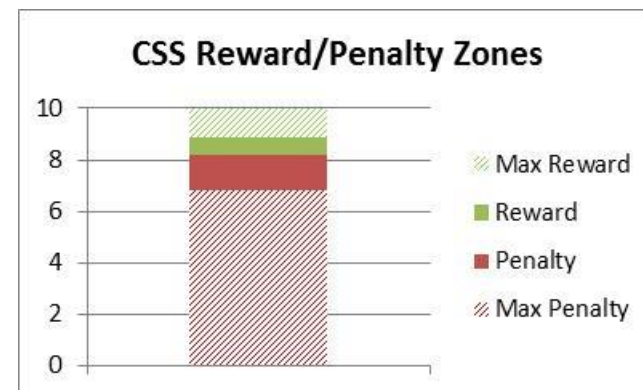


West Midlands Planned CML					
	2015/16	2016/17	2017/18	2018/19	2019/20
Actual (100%)	7.5	9.8	8.9		
Target (100%)					8.7
Target (50%)					4.4

ED1 – INCENTIVES – BMCS (Value +/- £12.9m pa)

Customer Satisfaction Survey (+/- £8.6m)

- Connections (50%),
- Interruptions (30%),
- General Enquiries (20%)
- Target 8.2 (max reward 8.9, max penalty 6.8)



Complaints (-£4.3m)

- Target 8.33 (max penalty 14.84)

Indicator	Weighting
Percentage of total complaints outstanding after one day	10%
Percentage of total complaints outstanding after 31 days	30%
Percentage of total complaints that are repeat complaints	50%
Percentage of total complaints where the Energy Ombudsman upholds a complaint	10%



Stakeholder Engagement (+£4.3m)

- Panel assessment of DNO activities
- Stakeholder Engagement and Customer Vulnerability (SECV)

Score	Below 6	6-7	8	9-10
Description	Weak	Fair	Good	Excellent

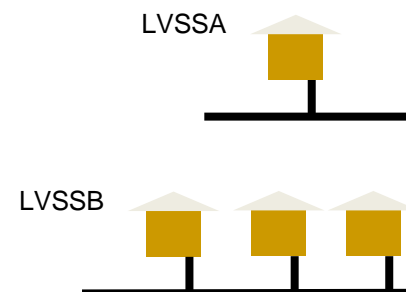
ED1 – INCENTIVES – TTC (Value + £5.2m pa)

Time to Quote (+ £2.6m)

- Application -> Provision of Quote

Time to Connect (+£2.6m)

- Acceptance -> Energisation



Targets for Time to Connect Incentive (from Decision Document)				
	Time to quote (days)		Time to connect (days)	
	LVSSA	LVSSB	LVSSA	LVSSB
Target	8.21	11.73	42.08	52.70
Max Reward ^{*1}	6.40	10.12	32.47	39.91

Rebasing of targets

- Targets only applicable for the first 4 years of ED1
- Being reset based upon the average of first three years actual performance across the industry

ED1 – INCENTIVES – ICE (Value - £7m pa)

Incentive on Connections Engagement

- Forward looking plans
- Backward looking reports
- Ofgem consultation referencing DNO activity
- Negative responses lead to potential application of penalty to relevant market segment
- 'Competitive' market segments excluded

Relevant Market Segments	
Demand	Low Voltage High Voltage High Voltage and Extra High Voltage Extra High Voltage and above
Generation	LV metered generators HV and EHV metered generation
Unmetered connections	New local authority connections New connection work for Private Finance Initiatives (PFIs) Other unmetered connections work (non-local authority or PFI)

Competitive Market Segment	West Midlands	East Midlands	South Wales	South West
Demand HV and EHV work	✓	✓		
Demand EHV and above	✓	✓		
Generation HV and EHV				✓
Unmetered local authority	✓	✓	✓	✓
Unmetered PFI	✓	✓	✓	✓

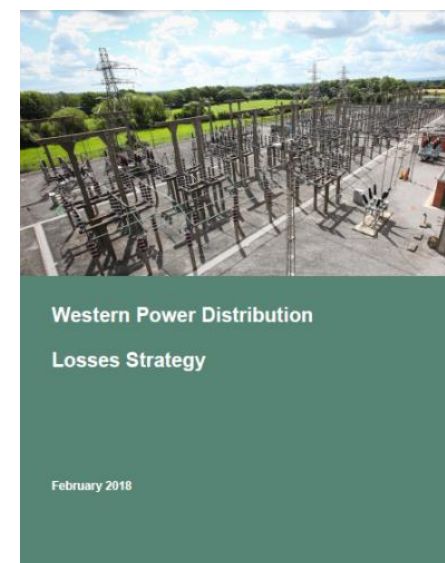


ED1 – INCENTIVES – LDR (Value +£20m ED1)

Losses Discretionary Reward

- Losses relate to the difference between power metered into the network and power metered leaving the network
 - Technical losses
 - Theft in conveyance
- Ofgem assessment of DNO plans and delivery in three tranches
 - Plans – £3.8m awarded
 - Activities – no awards
 - Delivery

Value of incentive for losses discretionary reward		
Incentive Mechanism	Maximum Reward	Maximum Penalty
Losses discretionary reward – year 2 of RIIO-ED1	£8m	n/a
Losses discretionary reward – year 4 of RIIO-ED1	£10m	n/a
Losses discretionary reward – year 6 of RIIO-ED1	£12m	n/a



**WESTERN POWER
DISTRIBUTION**
Serving the Midlands, South West and Wales

ED1 – INCENTIVES – NIA/NIC

Network Innovation Allowance

- Annual allowance that was determined at the start of the price control
- ‘Smaller’ projects

Network Innovation Competition

- Bidding process for larger projects
- Fund shared across distribution and transmission
 - OPEN LV £4.9m
 - EFFS £2.9m

Value of incentive for Electricity Network Innovation Competition								
	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23
Declared for RIIO-T1	£30m	£30m	£30m	£30m	£30m	£30m	tba	tba
Declared for RIIO-ED1	£60m	£60m	£40m	£40m	£40m	£40m	£40m	£40m
Current total	£90m	£90m	£70m	£70m	£70m	£70m	tba	tba

Annual NIA value (£m)	
	Reward (£m)
West Midlands	2.0
East Midlands	2.0
South Wales	1.0
South West	1.5



ED1 – INCENTIVES – TIM (Efficiency)

Totex Incentive Mechanism

- Determines a sharing factor
- WPD sharing factor is 70%
- Other companies are derived from the IQI matrix defined at price control settlement

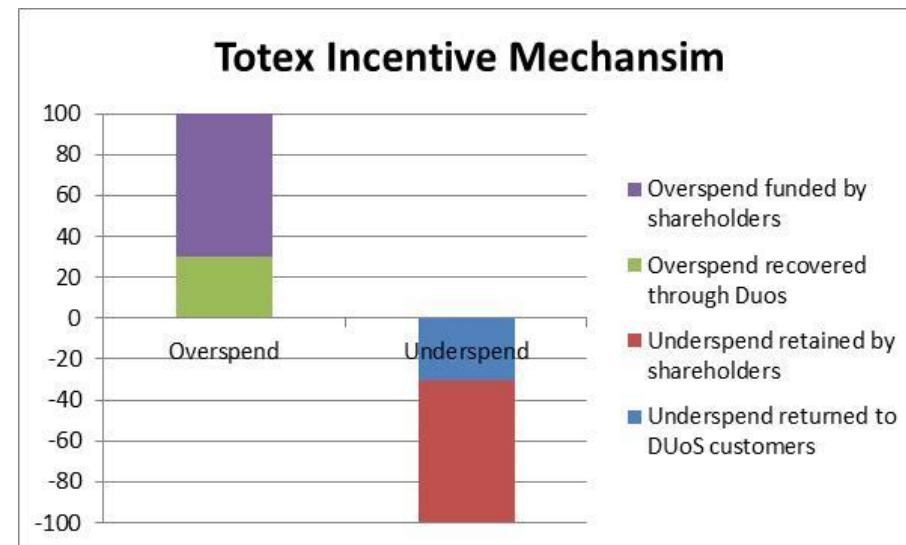


Table 2.8: IQI matrix

DNO: Ofgem Ratio	90	95	100	105	110	115	120	125	130
Efficiency Incentive	65%	63%	60%	58%	55%	53%	50%	48%	45%
Additional income (£/100m)	3.1	2.4	1.7	0.9	0.1	-0.8	-1.8	-2.8	-3.9
Rewards & Penalties									
Allowed expenditure	97.50	98.75	100.00	101.25	102.50	103.75	105.00	106.25	107.50
Actual Exp									
90	7.95	7.9	7.7	7.4	7.0	6.4	5.7	4.9	4.0
95	4.7	4.76	4.7	4.5	4.2	3.8	3.2	2.5	1.7
100	1.5	1.6	1.7	1.6	1.5	1.1	0.7	0.1	-0.6
105	-1.8	-1.5	-1.3	-1.2	-1.3	-1.5	-1.8	-2.2	-2.8
110	-5.1	-4.6	-4.3	-4.1	-4.1	-4.1	-4.3	-4.6	-5.1
115	-8.3	-7.7	-7.3	-7.0	-6.8	-6.7	-6.8	-7.0	-7.3
120	-11.6	-10.9	-10.3	-9.9	-9.6	-9.4	-9.3	-9.4	-9.6
125	-14.8	-14.0	-13.3	-12.7	-12.3	-12.0	-11.8	-11.7	-11.8
130	-18.1	-17.1	-16.3	-15.6	-15.1	-14.6	-14.3	-14.1	-14.1
135	-21.3	-20.2	-19.3	-18.5	-17.8	-17.2	-16.8	-16.5	-16.3
140	-24.6	-23.4	-22.3	-21.4	-20.6	-19.9	-19.3	-18.9	-18.6
145	-27.8	-26.5	-25.3	-24.2	-23.3	-22.5	-21.8	-21.2	-20.8
150	-31.1	-29.6	-28.3	-27.1	-26.1	-25.1	-24.3	-23.6	-23.1

ED1 – INCENTIVES – SI - GSOPs

Reporting code	Service	Ofgem RIIO-ED1 Guaranteed standards payments	WPD proposed RIIO-ED1 Guaranteed standards payments
EGS1	Responding to failure of distributor's fuse within 3 hours on working days, 4 hours at other times. (Regulation 11)	£30 for domestic and non-domestic customers	£60 for domestic and non-domestic customers
EGS2	Supply restoration - normal conditions within 12 hours (Regulation 5)	£75 for domestic customers, £150 for non-domestic customers, £35 for each further 12 hours	£150 for domestic customers, £300 for non-domestic customers, £70 for each further 12 hours
EGS2A	Supply restoration: multiple interruptions (Regulation 10)	£75 for domestic and non-domestic customers	£150 for domestic and non-domestic customers
EGS2B	Supply restoration - normal conditions (5,000 or more premises interrupted) within 24 hours (Regulation 6)	£75 for domestic customers, £150 for non-domestic customers, £35 for each further 12 hours up to a cap of £300 per customer	£150 for domestic customers, £300 for non-domestic customers, £70 for each further 12 hours up to a cap of £600 per customer
EGS2C	Supply restoration – rota disconnections with 24 hours (Regulation 8)	£75 for domestic customers, £150 for non-domestic customers	£150 for domestic customers, £300 for non-domestic customers
EGS4	Notice of planned interruption to supply within 2 days (Regulation 12)	£30 for domestic customers, £60 for non-domestic customers	£60 for domestic customers, £120 for non-domestic customers
EGS5	Investigation of voltage complaints within 5 working days (Regulation 13)	£30 for domestic and non-domestic customers	£60 for domestic and non-domestic customers
EGS8	Making and keeping appointments (Regulation 17)	£30 for domestic and non-domestic customers	£60 for domestic and non-domestic customers
EGS9	Payments owed under the standards within 10 working days (Regulation 19)	£30 for domestic and non-domestic customers	£60 for domestic and non-domestic customers
EGS11 (EGS11A, EGS11B and EGS11C)	Supply restoration: severe weather conditions Cat A – 24 hours Cat B – 48 hours Cat C – variable (Regulation 7)	£70 for domestic and non-domestic customers, plus £70 for each further 12 hours up to a cap of £700 per customer *	£70 for domestic and non-domestic customers, plus £70 for each further 12 hours up to a cap of £700 per customer *

Guaranteed Standards of Performance

- Statutory Instrument
- Payments for failure to deliver minimum standard
- Supply restoration (EGS2 – 12 hours)
- Severe weather restoration (ESG11)
- Notice of planned interruptions (ESG4)

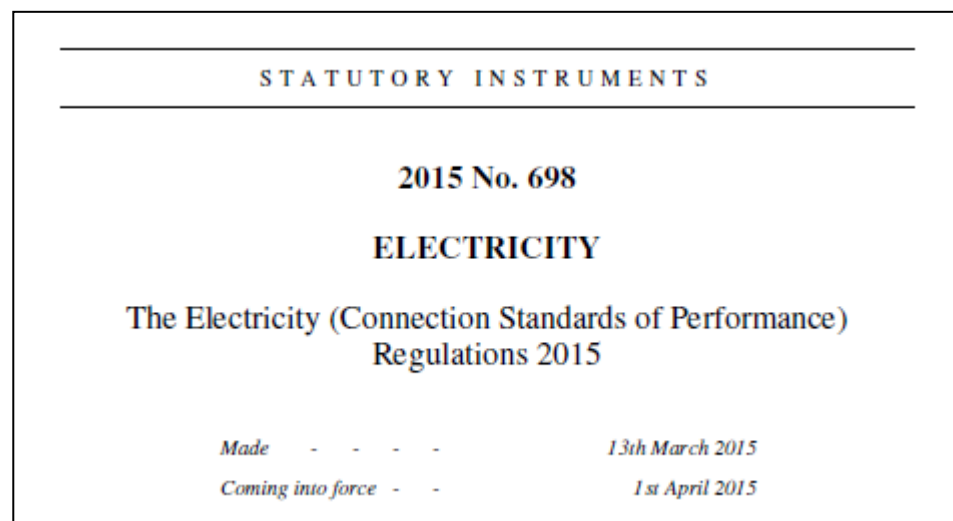
ED1 – INCENTIVES – SI – Connection GSOPs

Connection Guaranteed Standards of Performance

- Statutory Instrument
- Payments for failure to deliver minimum standard

Covers:

- Provision of budget estimate
- Provision of quotation (small scale projects)
- Provision of quotation (larger projects)
- Contacting customer after acceptance
- Commencing works
- Complete connection works
- Complete energisation works
- Unmetered - Response to faults
- Unmetered - Provision of quotations
- Unmetered - New works
- Quotation accuracy
- Making payments



ED1 – REPORTING – RIGs (RRP)

Regulatory Instructions and Guidance (aka Regulatory Reporting Pack)

- Standard License Condition 46
- Various Annexes
 - Annex A – Glossary
 - Annex B – Costs and Volumes
 - Annex C – Revenue
 - Annex D – Network Asset Secondary Deliverables
 - Annex E – Reinforcement
 - Annex F – Interruptions
 - Annex G – Connections
 - Annex H – Customer Service
 - Annex J – Environment
 - Annex K - Pensions
 - Annex L – Regulatory Finance Performance Report **NEW**

Table 2.1: RIGs annexes, reporting packs, commentaries and timeframes

Instructions and guidance annex	Reporting pack	Commentary	Period	Submission deadline
Annex B – Costs and Volumes	Costs and Volumes	Costs and Volumes	Regulatory year	31 July
Annex C – Revenue and Financial Issues	Revenue	n/a	Regulatory year	31 July
	Financial Issues	Financial Issues		
Annex D – Secondary Deliverables	Secondary Deliverables	Secondary Deliverables	Regulatory year	31 July
Annex E – Reinforcement	Reinforcement Load Index (LI)	Reinforcement Load Index (LI)	Regulatory year	30 September
Annex F – Interruptions	QoS Interruptions	n/a	Regulatory year	30 April
	QoS Interruptions Stage Data			
	Guaranteed Standards of Performance	n/a	Regulatory year	31 July
	Occurrences Not Incentivised			
Annex G – Connections	QoS HV Disaggregation	n/a	Regulatory year	30 November
	Connections	Connections	Regulatory year	31 July
	Connections Guaranteed Standards (SLC 15A)	n/a	Quarterly, starting April to June	31 July
Annex H – Customer Service	SLC 12 and 15	n/a	SLC 12: regulatory year SLC 15: quarterly, starting April to June	31 July
	Customer service	n/a	Complaints and customer satisfaction – quarterly, starting April to June Telephony – monthly	31 July
Annex J – Environment and Innovation	Environment and Innovation	Environment and Innovation	Regulatory year	31 July
Annex K – Pensions ³	Triennial Pensions	See appendix 2 of the Pensions RIGs	-	July and September 2017, July and September 2020, July and September 2023

ED1 – REPORTING – Typical Annex B template

The image shows a screenshot of a typical Annex B template spreadsheet. The spreadsheet is divided into several sections, each with a list of activities on the left and corresponding data tables on the right. The data tables are color-coded: green for 'Cost type breakdown', yellow for 'Asset Additions/Disposals', and blue for 'Cost by Activity' and 'Activity volumes'. Red arrows point from callout boxes to specific data tables in the spreadsheet.

Activity	Cost type breakdown	Asset Additions/Disposals	Cost by Activity	Activity volumes
...

Cost type
breakdown

Asset
Additions/Disposals

Cost by
Activity

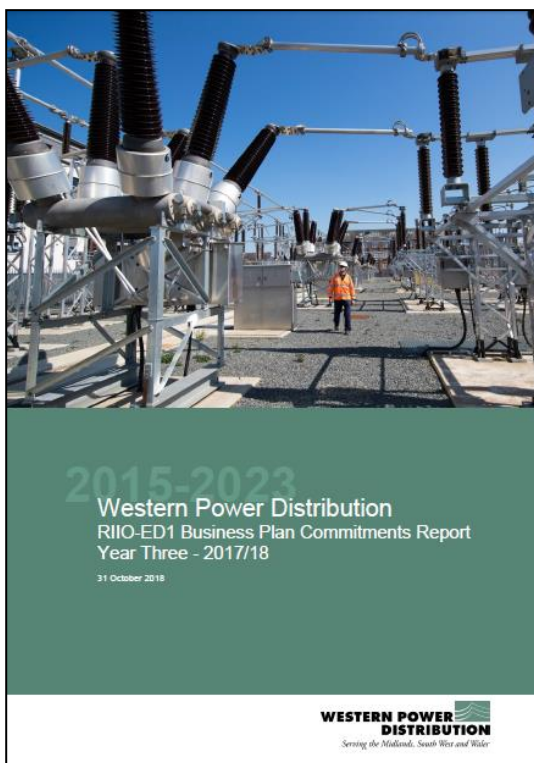
Activity
volumes



ED1 – REPORTING – REPORTS

Licence Obligations

- SLC 50 – Business Plan Commitments
- SLC 47 – Environment and Innovation
- SLC 48 – Innovation Strategy
- SLC 48a – Network Innovation Strategy



An introduction to the role of Ofgem:

Martin Crouch and Pamela Taylor

CEG Members

Regulatory overview and introduction to the RIIO Framework:

Paul Branston

Regulatory and Government Affairs Manager

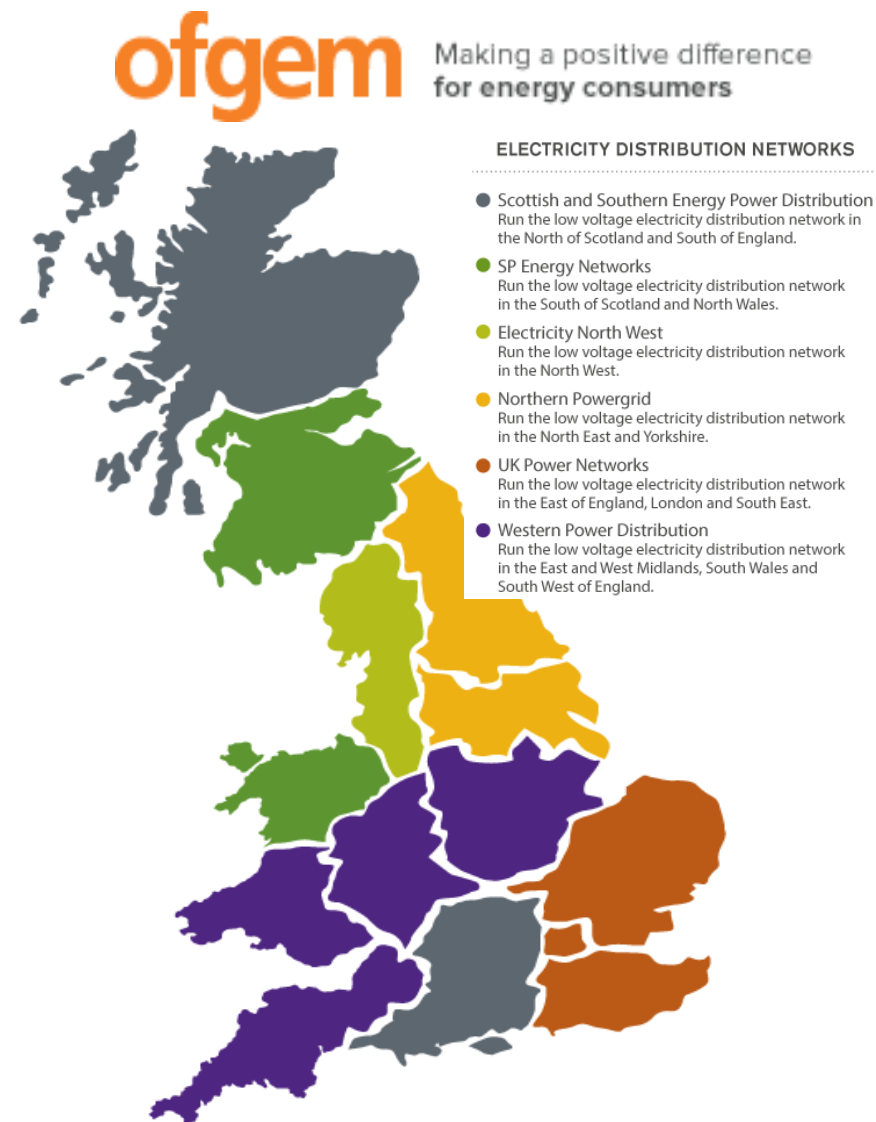
Agenda

- Why we're regulated
- Current ED1 plan and structure
- RIIO-ED2 and what has changed
- How we make funding decisions and how we're measured
- RIIO Accounts – delivering value

Why we're regulated

Overview of electricity regulation

- We are regulated by Ofgem, whose principal objective is to protect the interests of existing and future electricity and gas consumers
- Network companies are natural monopolies – customers don't normally get to choose which company they use
- All DNOs are regulated to ensure customers receive a fair service at a fair price
- Price controls set how much revenue we can collect from customers through energy bills (Allowed Revenue) and also aim to improve efficiency and quality of service
- There are 14 licensed distribution network operators (DNOs) in Britain and each is responsible for a regional distribution services area. WPD covers 4 of these areas.



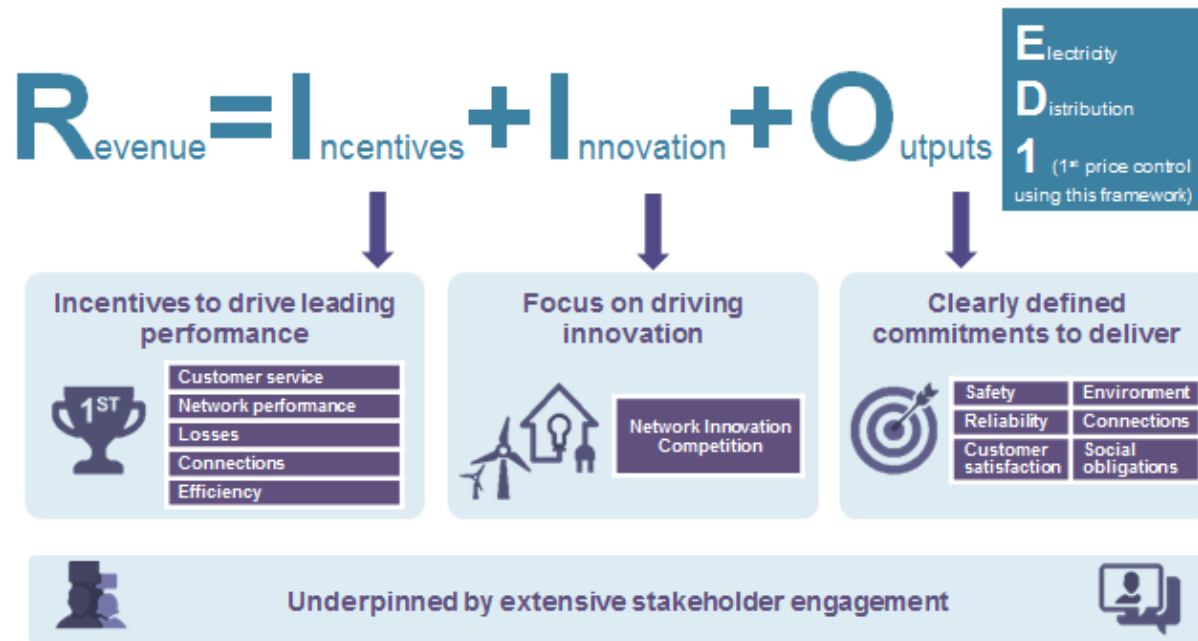
Why we're regulated

- Ofgem regulates the revenues that DNOs can recover from consumers
- Ofgem incentivises DNOs to:
 - innovate
 - improve efficiency
 - improve quality of service
- Ensure we deliver a safe and reliable supply
- Require us to respond effectively to:
 - requests for new connections
 - complaints
 - queries

ED1: Licence

- The Price Control is implemented through conditions in DNOs' licences. The licence governs:
 - The amount of revenue we can recover from customers;
 - The outputs we must deliver and associated rewards/penalties;
 - Uncertainty mechanisms
- In ED1, WPD's licence encompasses:
 - Standard and Special Licence Conditions; and
 - The ED1 Financial Handbook and The Price Control Financial Model (PCFM).
- The ED1 licence contains the formula for Allowed Revenue, which comprises:
 - Base revenue (calculated in Ofgem's Financial Model);
 - Network performance incentive rewards/penalties (CIs,CMLs);
 - Other adjustments including DPCR4 residual losses; and
 - K factor

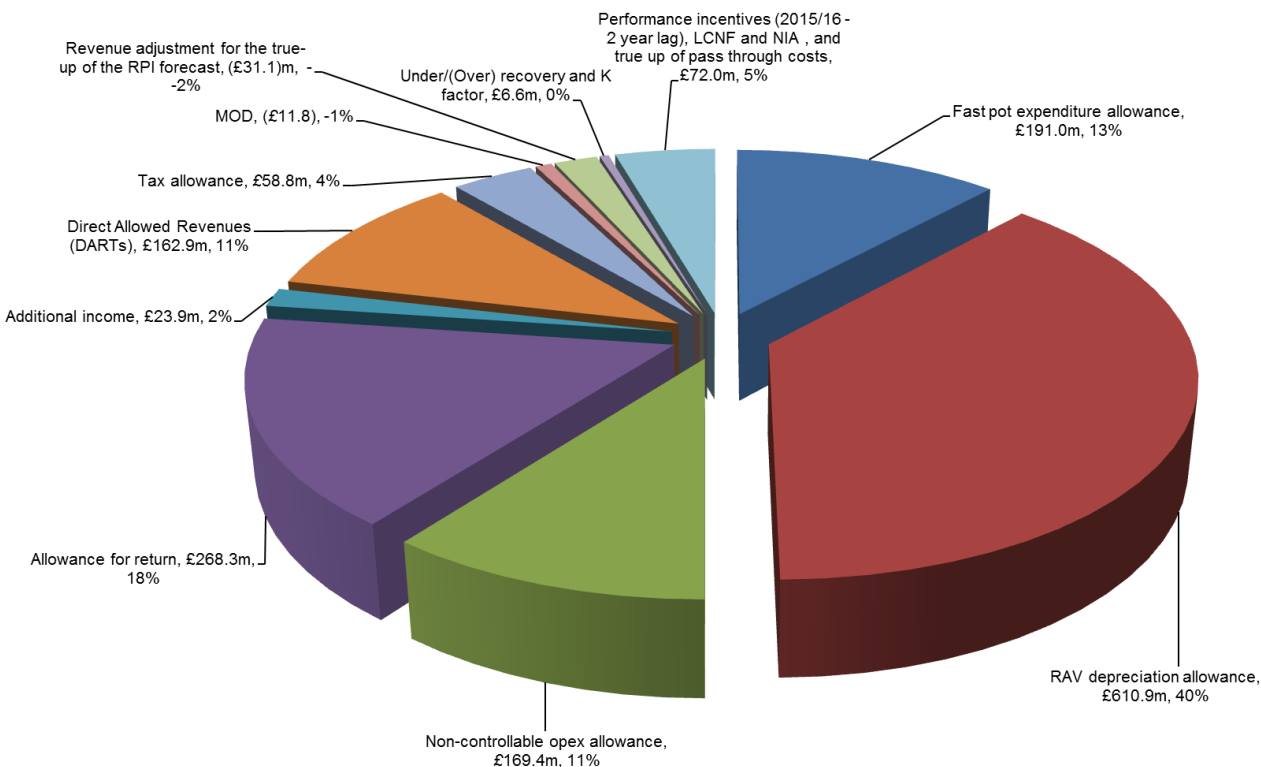
Overview of RIIO-ED1



- RIIO-ED1 is the name of the 8 year price control mechanism which sets WPD's regulated revenues for the period 1 April 2015 to 31 March 2023
- RIIO-ED2 will start on 1 April 2023 and will be for 5 years
- **RIIO:** Revenue = Incentives + Innovation + Outputs
- The previous price control was called DR5 (or DPCR5 – Distribution Price Control Review 5). This ran from 1 April 2010 – 31 March 2015

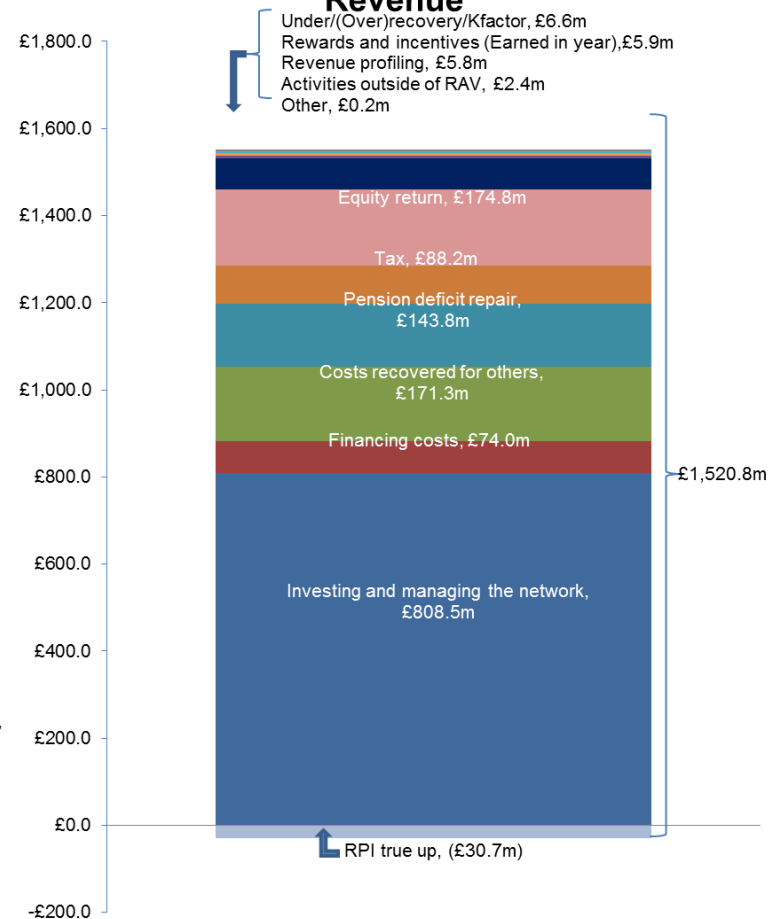
Component parts of WPD's 2017/18 Regulated Revenue and how it is used

2017/18 WPD Regulated Revenue, £1,520.8m



Source: WPD 2017/18 RIIO Accounts

How WPD uses its Regulated Revenue



Current ED1 plan and structure

RIO-ED1 Outputs

As part of our RIO-ED1 Business Plan, WPD committed to delivering 76 outputs by 2023 in 6 areas:

- **Safety** – reducing risk to our staff and the general public
- **Reliability** – improving the performance of our network
- **Environment** – reducing our effect on the environment and supporting the Government's plans for a low carbon energy future
- **Connections** – providing an efficient service for customers connecting to the network
- **Customer satisfaction** – maintaining excellent customer service
- **Social obligations** – supporting customers in vulnerable situations

Business Plan delivery 2017/18 – Output performance overview

Safety	
1. Meet health and safety law.	✓
2. Make sure we have safe clearance distances between overhead lines and structures or the ground.	✓
3. Complete inspection and maintenance programmes.	✓
4. Reduce the number of accidents.	✓
5. Contribute to safety initiatives put in place by the Energy Networks Association.	✓
6. Work with trade union representatives to promote safe practices.	✓
7. Investigate the causes of all accidents.	✓
8. Improve security at substations.	✓
9. Run electrical-safety sessions for members of the public.	✓
10. Distribute electrical-safety literature.	✓
Reliability	
11. Improve network performance to reduce power cuts.	✓
12. Reduce the time it takes us to restore electricity after a power cut.	✓
13. Reduce the number of times power cuts last more than 12 hours.	✓
14. Deliver Guaranteed Standards of Performance.	✓
15. Improve standards for customers who experience frequent power cuts.	✓
16. Install flood protection at substations.	✓
17. Speed up our programme for clearing trees that could cause a fault if they fell during a storm.	✓
18. Improve battery life at substations to last 72 hours if there is major, network-wide power loss.	✓

Key	Achieved the yearly output	✓	Output on track, some elements require further input	✓
	Output under review	--	Not met the yearly output	✗

Environment	
19. Improve the time we take to respond to customers connecting low carbon technology to our network.	✓
20. Identify areas where more low carbon technology is likely to be connected.	✓
21. Increase the size of assets in areas where more low carbon technology is likely to be connected.	✓
22. Explore new options to improve the way that we manage the network.	✓
23. Improve our management of the network by implementing 'smart' solutions.	✓
24. Use larger transformers in areas where we expect use of the network to increase.	✓
25. Use larger cables in areas where we expect use of the network to increase.	✓
26. Make sure that replacement vehicles have lower CO ₂ emissions than those they replace.	✓
27. Improve the energy efficiency of our buildings.	✓
28. Reduce the amount of waste that we send to landfill.	✓
29. Reduce our carbon footprint by 5%.	✓
30. Reduce the amount of oil that leaks from oil-filled cables.	✓
31. Reduce the amount of SF ₆ (a greenhouse gas) that is lost from switchgear.	✓
32. Install containment 'bunds' around equipment which contains large amounts of oil.	✓
33. Replace 55km of overhead lines in AONBs with underground cables.	✓
Connections	
34. Improve the time taken to deliver a new connection by 20%.	✓
35. Provide excellent customer service so that customers rank us as the top-performing DNO.	✓
36. Carry out customer satisfaction surveys with distributed generation customers.	✓
37. Develop our processes for customers applying for a connection online.	✓
38. Provide helpful information for connection customers online.	✓
39. Host 'surgeries' every three months to help connection customers to understand our processes.	✓
40. Work with major customers to identify where our processes can be improved.	✓
41. Aim to achieve no failures of the connection Guaranteed Standards of Performance.	✓
42. Improve customer awareness of other connection providers.	✓
43. Work with other connection providers to extend the types of work that they can carry out.	✓

Business Plan delivery 2017/18 – Output performance overview

Customer satisfaction	
44. Continue to be the top-performing DNO for the Broad Measure of Customer Satisfaction.	✓
45. Maintain our certification to show that we meet the Customer Service Excellence standard.	✓
46. Answer phone calls within two seconds.	✓
47. Limit the number of customer calls that are abandoned before we can answer them.	✓
48. Always provide customers with the option to talk to a member of staff when they call our contact centre.	✓
49. Provide a restoration time for every power cut.	✓
50. Call back all customers who have been in contact about a fault.	✓
51. Contact customers within two days of receiving an enquiry which was not about a fault	✓
52. Provide information through 'on-demand' messaging such as text messages and social media.	✓
53. Develop options for customers to find information online.	✓
54. Host a customer panel with our CEO four times a year.	✓
55. Continue to hold at least six stakeholder workshops each year.	✓
56. Provide a stakeholder report every year providing an update on our actions.	✓
57. Resolve at least 70% of complaints in one day.	✓
58. Aim to achieve no complaints where the Ombudsman has to get involved.	✓
59. Send the 'Power for Life' publication to all customers and make sure it promotes GSOPs.	✓

Social obligations	
60. Work with others to improve our understanding of the needs of customers in vulnerable situations.	✓
61. Train staff to recognise the signs of customer vulnerability.	✓
62. Contact customers in vulnerable situations at least once every two years to check their details.	✓
63. Improve the quality of the data that we hold on our Priority Services Register.	✓
64. Co-ordinate meetings with suppliers to agree criteria for vulnerability.	✓
65. Raise awareness of our Priority Services Register.	✓
66. Make 10,000 'crisis packs' available to customers who need extra support during power cuts.	✓
67. Contact customers who rely on a electricity for medical reasons every three hours during power cuts.	✓
68. Provide practical support during power cuts through organisations such as the British Red Cross.	✓
69. Ask for feedback from customers in vulnerable situations to check they are happy with our service.	✓
70. Develop ways of sharing information with local resilience forums.	✓
71. Build a database of regional agencies we can refer customers to for help with fuel poverty.	✓
72. Work with our partners to develop links to and from our website so information is easy to find.	✓
73. Develop joint information with the partners we work with to help customers who are facing fuel poverty.	✓
74. Provide fuel poverty training to our staff who have contact with members of the public.	✓
75. Use data analysis to help identify areas with a high concentration of vulnerable households.	✓
76. Develop local outreach services to help customers who are facing fuel poverty.	✓

In 2017/18 WPD met all of our 76 outputs as follows:

- **64** ✓ Yearly output met
- **12** ✓ On track for achievement in RIIO-ED1
- **0** ✗ Missed target

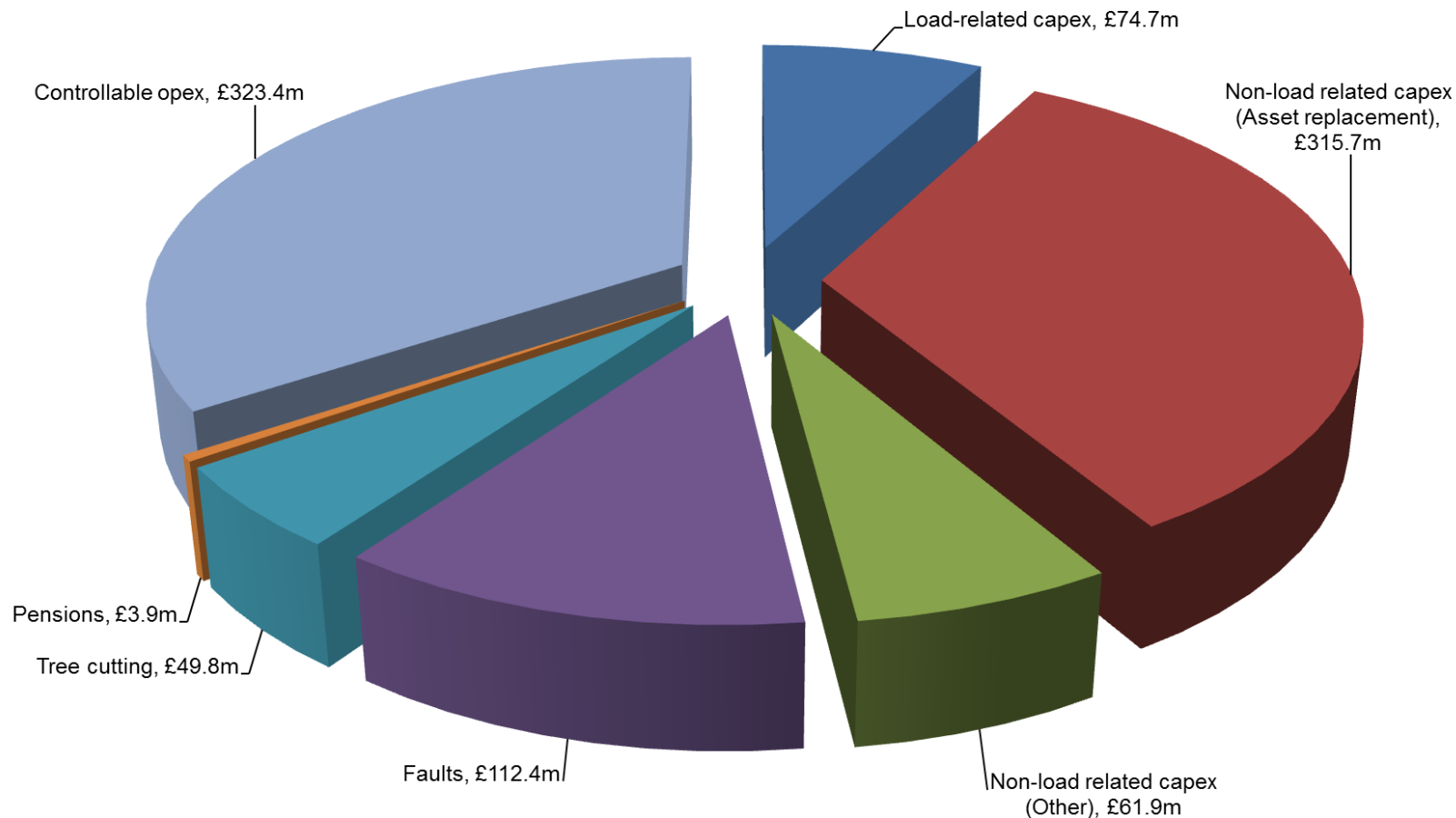
2017/18 Output Delivery – DNO comparison

- In Ofgem's most recent Annual Report they noted that DNOs are performing well across four of the six output areas reliability and availability, customer service, social obligations and safety, but that there is scope for improvement for the connections and environmental outputs
- Across all incentives, DNOs have earned £200m in incentive payments in 2017-18.

	Reliability and availability	Connections	Social Obligations	Customer Service ¹	Environment	Safety
ENWL			SECV score reduced		FFC target missed	
NPGN		Missed 3 of 4 connections targets			Internal SF ₆ target missed	
NPGY						Notice issued by HSE ²
WMID	Missed planned part of targets					
EMID						
SWALES						
SWEST	Missed CI target and planned part of CML target				Internal SF ₆ targets missed	
LPN			SECV score reduced			
SPN					Internal SF ₆ and FFC targets missed	
EPN		TTC targets missed			Oil leakage slightly increased	
SPD		TTC targets missed				
SPMW		TTC targets missed				
SSEH	Missed planned part of targets				Overall increase in oil leakage	
SSES		TTC targets missed			Mixed SF ₆ and BCF performance	

2017/18 Totex – Expenditure on our networks

WPD Totex, £941.8m



RIO-ED2 and what has changed

Key RII02 policy areas

- Ofgem has set out 8 key policy areas for RII0-ED2:

Giving customers a stronger voice

What customers want and value

Whole system solutions

Ensuring future resilience

Managing uncertainty

Driving innovation and efficiency

Simplifying business plan assessment

Fair returns and financeability

Key RII02 Proposals in Strategy Consultation

Finance

- Updated estimated range for the cost of equity is 4.0-5.0% annual real CPIH (3.0-4.0% real RPI) were the price controls to be set under today's market conditions using the methodology being consulted on
- Propose to distinguish between expected and allowed returns
- Consulting on adjustment collar of ± 300 bps around the allowed ROE for the average company in a sector

Outputs

- Proposing to consolidate the six existing output categories into three new categories focusing on outcomes for the consumer, for the network/system and for the environment
- New types of output now envisaged by Ofgem
 - licence conditions – will mandate some activities
 - output delivery incentives (ODIs) – measure that are associated with rewards/penalties or reputational league tables
 - Price control deliverables (PCDs) – PCDs will be associated with ring fenced projects/programmes that have volume drivers or claw back mechanisms.

Key RII02 Proposals in Strategy Consultation

Innovation

- Proposals to reform the innovation package, ensuring greater levels of innovation can be delivered through core business as usual activities

Incentives

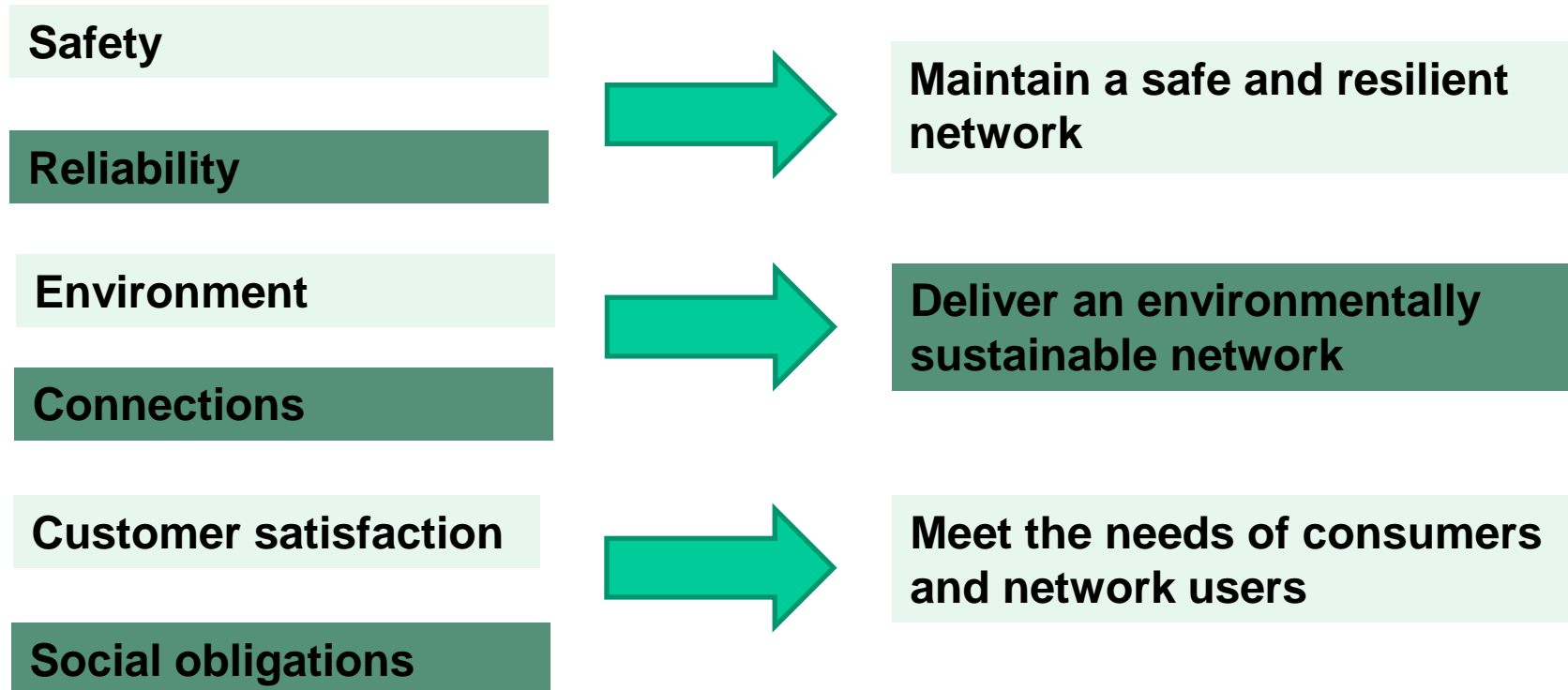
- Ofgem propose to remove the Information Quality Incentive (IQI) as a business plan and totex incentive for network companies
- Introduction of relative performance measures
- Ofgem's proposals for RII0-2 have fundamental implications for the allocation of risk and reward, and the consequential strength of incentives for the sector. Including (a) blended sharing factors; and (b) Returns Adjustment Mechanism (RAM)

Enhanced stakeholder engagement

- Introduction of CEG
- New Challenge Group
- Open Hearings

Changes to Output categories

- Ofgem is currently consulting on the proposed change from 6 Output categories in RII0-1 to 3 Outcome categories for RII0-2



RIO-ED2 High level policy priorities

- Facilitate growth on the network
- Facilitate increase in EVs
- Deliver government policies

WPD thoughts on RIIO-2 proposals to date

RIIO-2

- WPD keen to ensure RIIO-2 is successful
- Question benefits of some of the current work e.g. Changing Outputs
- Cross sector work must continue on core work e.g. COE, COD, Indexation
- RIIO price control is “price control in the round”. Need to understand all parts of the package before closing down ranges in any areas
- Stakeholder views must be considered
- WPD wishes to engage with Ofgem in a constructive dialogue to achieve successful RIIO-2 for all stakeholders

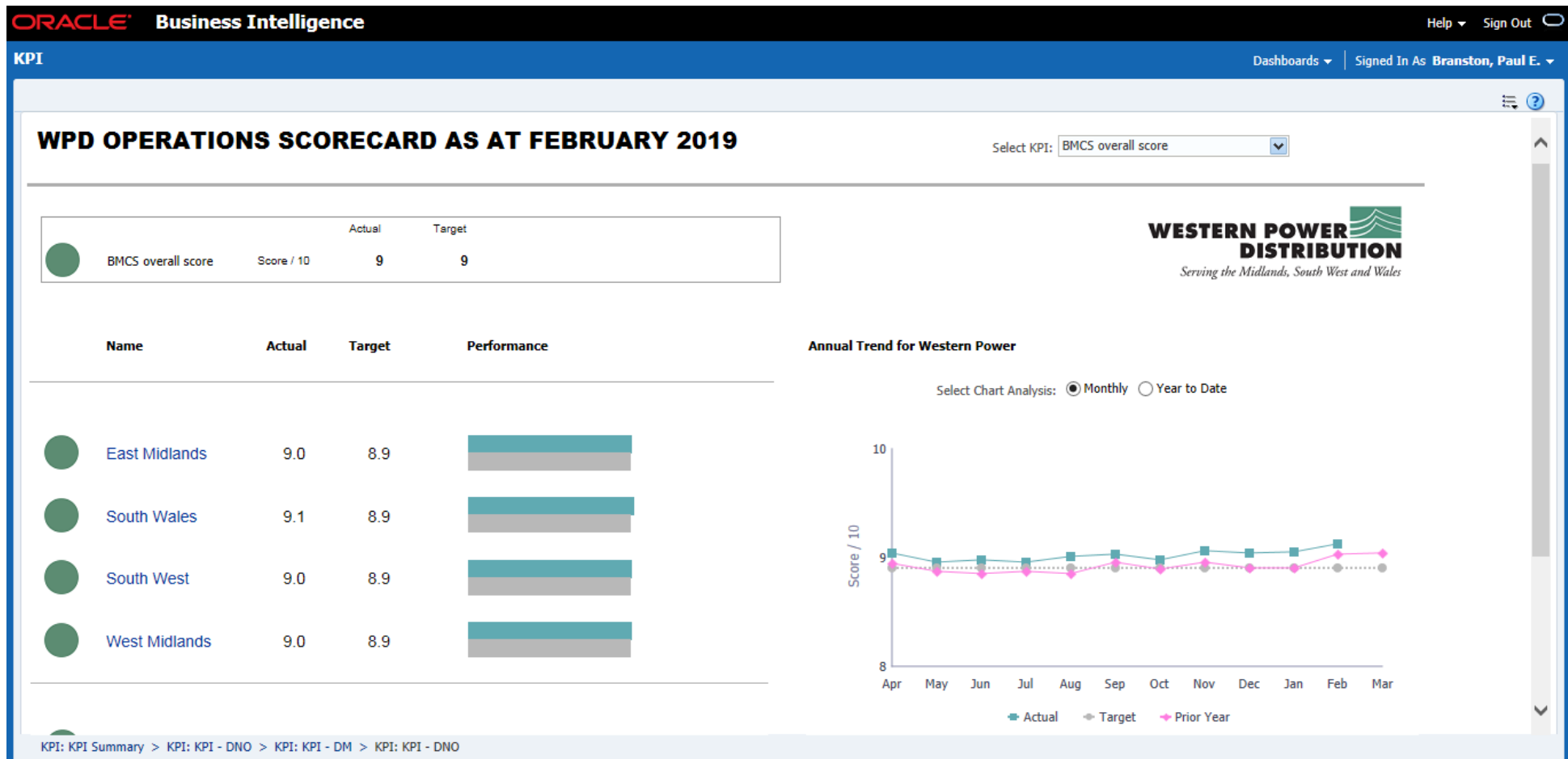
How we make funding decisions and how we're measured

RIO-ED1 Budget Setting

- Full bottom up costed Well Justified Business Plan (WJBP) developed for RIO-ED1
- WJBP forms the basis for the annual planning process
- Each year RIO-ED1 performance to date reviewed by Directors
- This review sets the strategic direction for the remainder of RIO-ED1
 - Review is informed by comparative analysis across WPD's DNOs and wider comparisons across all DNOs to ensure we remain frontier performer
- Once strategic target set, targets are cascaded out to each NSM
 - NSMs look to optimise delivery of WJBP outputs within totex allowance
- Monthly MI reporting enables monitoring of output delivery and expenditure
 - Dashboards enable full transparency of targets down to TM level for a number of measures
 - Actions taken by business to ensure targets are hit

KPI Dashboard Example

Broad Measure Overall Score



- Performance monitoring of KPIs at WPD level, NSM level, individual DM and TM level (where targets set at lower granularity)
- Comparisons to prior year, previous months and peers improves performance monitoring

RIO Accounts – delivering value

RIIO Reporting – Increasing transparency

Western Power Distribution RIIO Accounts for the Year Ended 31 March 2018		
WPD Headlines for 2017/18		
Cost to average customer per month	£8.17	See page 4
Network Availability	99.995%	See page 14
Total Expenditure (Totex)	£942m	See page 10
Network Asset Performance	134%	See page 14
Return on Regulatory Equity (RoRE)	6.3%	See page 12

In 2017/18 WPD's cost to average customer :

< 27p per day

(= £8.17/mth = £98.00/yr)

Cost to consumer down

↓ 3.9% on 2016/17

<https://www.westernpower.co.uk/customers-and-community/riio-accounts>

- WPD published 2016/17 and 2017/18 RIIO Accounts once the process had been agreed with Ofgem. We were the first DNO to do this
- Whilst focus has now changed from the formal audited RIIO Accounts process the Regulatory Financial Performance Reporting Framework this work is still very much work in progress. We were keen to provide the latest 17/18 numbers in the same format as the previous year so stakeholders could provide thought and comment on our reporting and level of transparency

WPD RIIO-ED1 performance summary

For 27p a day, in 2017/18 WPD delivered:

- Reduced staff accident rates
- Highest combined customer satisfaction in the industry
 - 7th consecutive year
- Number one for stakeholder engagement
 - 7th consecutive year
- Better than target network performance
 - On average customers have a 26 minute power cut once every 2 years
- Better than target for 'time to quote' and 'time to connect'
- WPD supported 15,229 fuel poor customers to save over £5.4 million a year

Wrap up and reflections on the day

Duncan McCombie

CEG Chair