

Transcript – UKPN ED2 Open Hearing – 15th March 2022

Steve McMahon, Ofgem, Deputy Director, Network Price Control Setting – introduction:

Welcome to the Open Hearing for UKPN.

I'm Steve McMahon, Ofgem's Deputy Director for Network Price Control Setting and the SRO for the ED2 Programme. Before handing over to Jonathan Brearley, Ofgem's CEO for some introductory remarks, I will briefly cover some housekeeping issues for this event.

Firstly, all attendees should note that the session is being recorded and a transcript will be published including all the questions posted in the chat from participants. The session's also operating as a moderated Teams session, so the visible participants are currently limited to Ofgem panel members, UKPN attendees and the representatives from the independent ED2 Challenge Group and the UKPN Customer Engagement Group. From Ofgem, alongside myself, we have Jonathan Brearley - CEO, we've got Christine Farnish – non-executive director and Ben Burke-Davies, the programme director for ED2. From UKPN we have Basil Scarsella – CEO, Sul Alli - Director of Customer Service, Strategy, Regulation and IS, Barry Hatton – Director of Asset Management and James Hope - Head of Regulation and Regulatory Finance. From the Challenge Group we have Roger Witcomb – Challenge Group Chair and Bob Hull – Challenge Group member. From the UKPN Customer Engagement Group we have chair Ann Bishop and member, Ashleye Gunn.

All other attendees with have their cameras and microphones disabled in the meantime – if you do want to participate in the Q&A then please post your question for each session in the chat along with your name and organisation – so don't use the 'raise hands' function as would be normal in a Teams event. The questions are being moderated by some of my Ofgem colleagues and if your question is selected then we will come to you, and we'll enable your camera and microphone for you to pose your question to the UKPN team. You will still have to unmute yourself from your laptop. If for whatever reason the technology doesn't work and won't let you appear then I will cover the question on your behalf. Time is limited so it's unlikely that we'll be able to get through every question, but these will all be collected and we will look to ensure they are all covered as an addendum to the post meeting transcript. The session will run for approximately two hours following a 15 min presentation from UKPN. The hearing is set into two thematic sessions with a very short break in between. The Challenge and Customer Engagement Groups will open the questioning for each session and then we'll come to the Ofgem panel and wider participants for their questions and finally, just a reminder that the focus today is on UKPN and their business plans so not the wider Ofgem regulatory framework or the Challenge Group or the CEG reports so please prepare your questions on that basis. Hopefully that's clear, I'll hand over to Jonathan Brearley for some introductory remarks.

Jonathan Brearley- Ofgem – CEO - opening remarks:

Thanks, Steve and thanks to everyone for coming to the first of our Open Hearings. Just to say thanks to the Challenge Group for all the work they've put into this, thanks to UKPN and the Customer Engagement Group as well. This is a really important part of the process in making sure we set up the regulation and indeed the spending on our local networks over the next five years from 2023 to 2028.

Now just to step back a bit and to think about the context of these price controls, I think it's fair to say that the energy sector is in a great deal of turmoil, and I want to start by saying that our thoughts are absolutely with the people of Ukraine and what is happening in Ukraine right now. But equally that the consequences for the energy sector are fundamental in terms of prices that customers are expecting to pay and the impact that this will have on all of us, both as domestic and non-domestic users of energy and really, when

we think about the current situation and all the work that Ofgem, with government and the industry are doing to mitigate against some of these impacts and we think about our strategy going forward, it's clear that our supply needs to diversify. That we need to transition away from the current reliance we have as a country on gas as a fuel and on the international markets as a result. The reason that I bring that up is that there has never been a more important time for the role local networks play. If we are going to make that transition towards Net Zero further and faster, then the evolution of our networks is fundamental to that and therefore these price controls are of critical importance to all of us and I'm really glad to see such a large number of people attending today. In another area, Storm Arwen has told us that there are lessons for us all to learn about how we respond to questions of resilience and how we respond to extreme weather events to make sure that customers are protected and looked after.

So, if I was to account for what Ofgem is looking for, first of all - efficiency has never been more important so as you make that journey to Net Zero, we want to make sure the system as a whole is efficient. We want to see local networks that are treating the DSO function with importance and carrying out what I describe as whole system thinking. It means that we need whole system thinking and optimization thinking beyond simply what we do with our wires for the new technologies that we might employ to make sure we get the best possible outcome - secure, low carbon and cost-efficient energy system for customers.

Yes, we think we're going to need new investment and strategic investment, but we need to make sure the economics behind that investment are robust and any bill will naturally want to be done both efficiently and with reasonable returns to shareholders. So overall we want a whole range of different investments in this system at the right place at the right time, and indeed at the right cost.

Now, I know that network regulation is complex. I know that it's quite hard for anybody outside of our closed world to engage with all the acronyms that we use. But it has never been more important to engage people locally with the way in which their energy system will evolve, and ultimately the networks that need to support that.

And that's really why we're having these Open Hearings today, is to hear from all the range of stakeholders that we need to, to make sure that we do make the right decisions as Ofgem goes through its draft decision in June and ultimately, it's final decision at the end of the year. So, I'm really delighted to hand over now to UK Power Networks, particularly to Basil Scarsella to take us through their plans before we open it up for comments and questions from a range of different stakeholders. So over to UK Power Networks.

Basil Scarsella – UKPN

Yeah, good morning all and thank you Jonathan. Can I just reinforce what Jonathan's already said that our thoughts are with the Ukrainians and obviously the conflict that we're all seeing on television. From a UK Power Networks perspective, we're delighted to be involved and working with the government to provide any help we can, including the provision of possible mobile generators. So, Jonathan thank you for those introductions. Before I move in to addressing the two themes, namely preparing the network to meet Net Zero at the lowest possible cost and also delivering world class services and ensuring that no one is left behind, I thought we'd spend a few minutes talking about our track record, of which we are proud of. And our vision, which has served us for the last 11 years since the acquisition of UK Power Networks in 2010. There are three pillars, an employer of choice, a respected and trusted corporate citizen and sustainably cost efficient.

In short, our strategy was to deliver all our commitments that we set out in ED1 at the lowest possible cost, while at the same time maximising the reliability improvement and the level of customer service. You will see in the quadrant, we believe that a high performing organisation, a high performing group of networks should be in the bottom quadrant where it's low cost for customers and high performance, meaning the high performance I repeat again - high reliability, high level of customer service and you can see - and

stakeholder engagement - and you can see where the three networks after six years of ED1 are and we are proud of that record. Coming back to the vision, as part of ED2 after consultation with stakeholders, customers and employees we've added another pillar to the vision which is enabling the Net Zero transition for all. That has come about as a result of consultation with our various stakeholders, so we are proud of our record, which is squarely in line, I think, with, Chairman, what you suggested that it's important we continue to innovate, but it must be at the lowest possible cost, given the economic climate that we live in. So, when we turn over and look at the metrics, you can see what's - yeah, you can see our performance from an employee perspective, we are the safest in the sector and we were ranked the second-best company to work for - large company to work for in the UK. So, it's important that employees are highly engaged for us to be able to deliver great customer service - 93% customer satisfaction when we know that the incentives are maximised under the current ED1 regime at 89%.

So, we've gone much further than we're required to go, and importantly, at no additional cost to customers, we're providing 93%.

Similarly, the frequency of power cuts, the customer interruptions and the duration of power cuts, the customer minutes lost - you can see the improvement we've made. In two of the networks, namely the London network and the Southern network - we're again going further in providing improved reliability, even though the incentives provided by Ofgem have been maximised. So again, we're providing benefits to consumers at the lowest possible - at no additional cost. We are also the lowest cost group of networks at £81, roughly per year and we rank second in the world in terms of smart grid index which enables the uptake of technology. So that's a brief introduction in terms of our performance.

Moving onto ED2, we believe we have an ambitious plan for ED2 and on that note I would like to thank both the Challenge Group for their feedback after the initial plan and importantly the Customer Engagement Group for the challenge right throughout the process. It's with the input of both those groups that we believe we have an ambitious plan. That plan is characterised by 1) the fact that we will establish an independent DSO, which in my view is critical to ensure that customers receive the best value option at all times and not monopoly such as - such as UKPN simply investing in increasing their asset base at a cost to customers. We also have whole system commitments that we've made and that - in fact we have 82 commitments across our plan, of which some 15 commitments are new and first in the sector. So, the DSO - critical, there's a stretching whole system commitments, a clear methodology underpinning the engagement of some 127 local authorities. We plan to extend competition. This view that contractors - independent contractors - cannot work on our network in the case where we're simply expanding the network rather than extending it, I think it doesn't provide best solution for customers. So, we're proposing to expand that, to introduce competition to look some additional £100million of work. Reliability - we've proposed to be making a commitment to reduce short interruptions. Today interruptions less than 3 minutes are not monitored from a regulatory perspective, we are proposing to introduce targets and importantly, we look after our vulnerable customers, and we conduct separate customer service surveys to make sure that they are satisfied. With the model that - in the fact that we are the most efficient and come back for customers, it's important we provide the best level of service at the lowest cost.

We move on, addressing the DSO, why we believe this is critical to ensure that customers receive the best value at the lowest possible cost. We're proposing legal separation of the - in establishing a subsidiary of the DSO and an independent supervisory board with an agreement which could form the basis of a separate licence between the DNO and the DSO.

And basically, what we've said, we get that the structure and the workings ready - that if and when the government decided - the regulator - decides whether it should stay under the umbrella of the DNO or it should be separated, that would be a matter for them, but it will be clearly ready to be separated.

What does it do? It would - the DSO - it would increase trust and confidence from our customers, that we have delivering the best solution for them and will lower customer bills. It will improve access to the network and importantly it would improve increased participation in the transition to Net Zero.

How are we going to make sure - and it's been suggested, for example, that because of our relatively low ex-ante ask how we're going to make sure that we are not we, the DNO, are not a blocker to the transition?

Firstly, chapter eight of our plan very clearly sets out how we will go about ensuring that we invest proactively to ensure that customers are not impeded in the transition to Net Zero but at the same time customers will not be paying for investment assets that are not utilised. We will ensure we wouldn't have and the plan includes investing in monitoring equipment for our low voltage network including other approaches to monitoring, working with credit card providers, etc., to ensure that we know where low carbon technologies whether it will be EV and heat pumps are being rolled out and we can importantly, firstly use the existing capacity of the network; secondly, explore flexibility providers and encourage the emergence of our flexibility market; and finally, when those two options have been explored - only then we will reinforce the network.

So that's how we plan to provide - to deliver the lowest costs, and it's through the provision of an independent DSO which will report any disagreement with a supervisory independent board on a regular basis.

Importantly, we will provide at the lowest cost, but how are we going to continue to provide world class service? As I said earlier, today we provide 93% level of customer satisfaction. We are proposing to continue to improve on that and therefore in short, in order to provide 93% customer service, we must make sure we're not a blocker.

We've got significant amount of money on asset replacement: £150 million, £155 million on the replacing of 170 kilometres of fluid filled cable.

And we will focus on the worst served customers while at the same time ensuring that our network is resilient, and if there was any proof that that we're in a good place, I think our performance in restoring supply in the recent storms supports that.

Finally, we are supporting now – that the vulnerable customers, clearly vulnerable customers - the definition of vulnerable customers will change going forward, we will continue to undertake market research to understand customer expectations and we will make sure, as I said earlier, that we will deliver the 93% customer satisfaction or better.

In conclusion, I think UKPN leads the sector now in customer service and lowest costs and I think our ED2 plan will continue to improve on both of those, ensuring that lowest costs while maintaining our sector leading customer service. Chairman, on that note, I will end there, thank you.

Jonathan Brearley - Ofgem

Brilliant, thank you, Basil. And perfectly timed, so thank you. Well, I forgot to announce - I should have mentioned that Steve McMahon is hovering over the mute button so as soon as we go over by a couple of minutes he steps in, with everyone, including me.

We're now going to divide this session up into two themes, and the first theme is preparing the networks to meet Net Zero at lowest cost to customers and the second theme is delivering world class services and ensuring no one is left behind.

So, focusing on the 1st theme I'm going to ask the Challenge Group to give their view of plans have been put forward, and I think I'm handing over to Bob, is that right?

Bob Hull – Challenge Group

Yes, that's it. Can you hear me OK?

Great, yes. Good morning, everyone and thank you for the presentation.

If I could turn to your totex forecast and I refer to page 191 of your plan where you set out that your asset replacement plan is increased by 45% from ED1.

But it is increased significantly between your draft and final plan, asking for another £220 million which you say is for replacing more cables, overhead lines and so on. My question is how is this increase from your draft plan justified? Have you just built some fat into your final plan?

Basil Scarsella - UKPN

Yeah, well firstly, the asset replacement - a very quick answer, and then I'm going to pass it on to pass you on to Barry. When you - when we look at the asset replacement, either DPCR5 ED1 and ED2, I think you will find that our asset replacement is pretty constant on average, year on year, so I certainly don't believe that we have fat in the replace- in the asset replacement area, but – Barry.

Barry Hatton – UKPN

Yeah, no, thanks.

In the plan between draft and final, there was a big shift, certainly on fluid filled cable numbers.

That was sort of driven by - think back about where we've been challenging enough in terms of stretching enough in terms of reduction of the fluid filled cable losses. So we moved our target commitment from 2% year on year reduction to 3% year on year reduction. And that was part of the reason why the fluid filled cable increase nearly doubled what we had in the draft plan. In addition to that when you incorporate the PCB-driven replacements coming in there and some other drivers on our IT telecoms, particularly in, sort of, RTU replacements, that's significantly increased our volumes between draft and final. As Basil says when you look at the long term spend our ED2 proposals are in line with the average that we've got for ED1 and DR5. In that time see things shift and certainly one of the areas that we're sort of seeking to improve or increase the level of spend is on wood pole replacement and I think that's sort of supported by what the performance that we've seen in recent storms.

If you look at the sort of interim Storm Arwen report and look at the number of HI4/5 poles that have been flagged in that you will see actually that we have the lowest percentage on that. However, we do see that as an area of increasing risk as we go into ED2.

Bob Hull – Challenge Group

OK, thank you. I mean, I guess I'd still sort of make the point that they have increased by 45% from ED1 but I guess that will be an issue for Ofgem to look at further as they sort of analyse the plans.

If I could perhaps come on to another question; during ED1 you're underspending as you've set out, but a large proportion of that is due to underspending of a load related expenditure because of lower-than-expected low carbon technology installation. Looking forward to ED2, you're looking at reinforcement savings from your DSO investments, according to your appendix 18d, of about £600 million split across primary, secondary and customer connections.

And then for ED2, you're forecasting a load related increase, equivalent to about £200m plus an uncertainty mechanism of £750 million.

Given that you've got such a wide range of flexibility savings that your DSO is delivering why is this uncertainty range so broad given your DSO investment?

Why aren't you looking at more non-network solutions? Why are you looking for this increased contingency for load related expenditure?

Basil Scarsella - UKPN

Yeah – firstly, Bob, thank you for pointing out the fact that we have underspent significantly, and we've given well above 20% - giving money back - 100% of the money back to customers.

So I've got to say we don't understand it, during – in an environment of the last six or seven years where peak demand has decreased and only some 20% of the low carbon technologies have come on board - I don't see any other way of actually not undertaking - if we're serious about lowest cost to customers - not undertaking the load related reinforcement, because if we've done that customers would have been paying today unnecessarily.

So, I think, thank you for pointing that out.

In terms of the increase, again, I'm going to turn to Barry to go into the detail.

Barry Hatton – UKPN

Yeah, and in the plan we've identified 15 specific projects, each of them supported by an individual engineering justification paper. That's a sort of primary load related. The big DSO saving of £400 million is against what could have been in our plan had we not chosen to sort of take the flexibility path. We've still got to realise that but of course in our forecast we're sort of seeing it, that load is expected to rise, but we put money into the plan to cover what we expect to be the flexibility cost to mitigate that over the period. Any forecast is subject to change and you know we've got quite a bit of variability when you look between the top and bottom scenarios, but nothing that we can't sort of manage in our ability to deliver that over the period, but what we - a real focus is going to be ensuring that actually we're monitoring really well to understand where the issues are likely to arise and use that to sort of forecast from it to require an intervention, whether that be flexibility which will be our first approach or then on reinforcement. As we get more and more smart meter data that is going to help us refine those forecasts and give better confidence that what we need with in the longer term and being able to access the uncertainty mechanism that you know we'll be doing it with a much more sort of data driven, data supported approach.

Basil Scarsella - UKPN

But while wrapping expenditure under uncertainty mechanism, surely that must be better than having it in an ex-ante allowance from a customer perspective.

Bob Hull – Challenge Group

Yeah, I think my sort of question is why is the uncertainty mechanism so broad? You know, it's, you know, a very significant number given that you're already looking to save sort of £600 million through your flexibility. I mean, if I could just follow up with one point. I mean, I note on the data issue. I mean, I think what you're saying in your cost benefit assessment is that £6 million or 1% of this saving is due to data analytics, which doesn't seem a very high number.

Sul Alli – UKPN

At the heart of your question there's this trade-off between investing now and customers being lumbered with unnecessary high bills as a result of investment that is either undertaken too quickly, or maybe underutilised.

So as leaders in this business, we're faced with a very simple conundrum, right? Which is we put in a credible strategy to deliver Net Zero, which is to put in high confidence investments that we think could materialise and are needed and then we either flex up or down based on whichever decarbonization pathway materialises.

The reason for the broad range is what we've done is we've actually sat down with stakeholders and said what could be the drivers, right, that could require additional investment in the future, and we use the

CCC's high case scenario, which is their forecast, not ours of the LCT uptake and we deliberately calibrated down energy efficiency and flexibility to give a plausible worst case. So, we try to do the right thing by being transparent with stakeholders and customers of what the upper end of that investment envelope could look like.

But that doesn't mean we're going to go for it, full stop. We're saying that actually we're going to be monitoring the situation very carefully and in chapter eight Basil said, we've described in great detail how that process is going to work, and we'll report on that every year.

Bob Hull – Challenge Group

OK, I could ask a lot more questions, but I think I've had my time so thank you very much.

Jonathan Brearley - Ofgem

Thanks very much, Bob.

We're now going to go to the Chair of the Customer Engagement Group, Ann Bishop.

Ann Bishop – Customer Engagement Group

Thank you, Jonathan and good morning, everybody.

The CEG found the UK Power Networks plan to be distinctive and innovative in terms of delivering Net Zero at lowest cost to customers, in part by using the tools that Ofgem has made available as part of its methodology for ED2.

As Jonathan has outlined very succinctly and articulately, to say that uncertainty is increasing will be an understatement.

Basil, we challenged you consistently on the fact that the scenarios of which the plan is based mean that your totex falls within a very narrow range, and we actually remain concerned about that.

So, my question is if developments in ED2 and beyond fall outside the scenarios you considered, how can you give your customers in your three distinct regions, the confidence that you will be able to deliver your ambitious targets in order to meet their needs and preferences going forwards.

Basil Scarsella – UKPN

Yeah, the customer expectations - and again, thank you for the input from the CEG over a long period of time. But customer expectations include - one of the customer expectations - lowest cost as we've repeatedly talked about this morning. Therefore, the way we plan to do - briefly touched on, under the DSO - is to monitor what is happening, what we have asked for ex-ante is what we believe is virtually certain to happen. What is in UM's we will monitor and proactively provide the additional capacity if and when the low carbon technologies emerged, but Sul.

Sul Alli - UKPN

Thank, Basil, appreciate that. Ann, I think you're referring to the scenarios that we put in our managing uncertainty chapters Basil described, and scenarios are one tool for decision making under uncertainty, and we use scenarios to actually understand the envelope of totex that could be required. And as I've already said in my response to Bob, we've modelled a plausible extreme high case scenario to be fully transparent what that upper range could look like, but scenarios are not the only tool - we've used other tools to actually understand and stress test our strategy and stress test our resilience.

So, for example, we've used this concept of the pre-mortem that Basil chaired before we put the final plan, which allows us to fast forward to 2028 and say, well, our strategy failed - what, why, how? - to help us try and think about and how we avoid those issues from crystallising and that resulted in additional

investment that we put in the plan for December which we shall all be monitoring - additional investment in the LRE.

The second approach we've taken is around our organisational resilience. So, in Chapter 10 page 108 we actually list out the resource planning we've done both for contractors and our own employees to be able to achieve that high case. So, when you take our scenarios in the round, the investment scenarios based on the low carbon pathways, the pre-mortems that we've done plus our organisational resilience planning, I think that in the round we're confident that we're not going to be a blocker to decarbonization.

Ann Bishop - Customer Engagement Group

Thank you, Sul.

Jonathan Brearley – Ofgem

OK, any more questions from you, Ann, or should we open up now to the Ofgem team?

Ann Bishop - Customer Engagement Group

No, I think in the interest of keeping to the agenda, Jonathan, that's good for us.

Jonathan Brearley - Ofgem

Thank you, I'm now going to invite any Ofgem member to ask any questions. I'm just going to ask Christine Farnish, our non-exec director, if there's any questions she'd like to ask and I have a couple of questions myself.

Christine Farnish – Ofgem

Yeah, quick one if I may, Jonathan. Morning, Basil and team. Can I ask about asset replacement costs? Because if I understand it correctly, you underspent your asset replacement budget in ED1 by around 40% and you're now asking consumers to pay a shed load of extra money to do an awful lot of work over the period ahead, which is going to be pretty difficult for customers looking at what's going on in the macro environment.

Surely you should have done more in ED1. You've had the money, why are you now expecting people to pay so much more over the coming years?

Basil Scarsella UKPN

Yeah, Christine again - I'll pass it on to Barry, but what's important given the regulatory regime that we operate in is what's - to deliver the health indices to ensure that the quality of the asset at least remained the way it was or in some cases improved and we were able to deliver that by...but at the same time, underspending surely that is for the benefit of consumers.

And again, I repeat what I said earlier - the asset replacement that we've spent over the last 16 years or so, and we plan to spend over the next 5 is pretty consistent, but no one can actually point to us that our quality - our network is deteriorating because again, if you look at the performance of our network and the reliability has improved out of sight.

Barry Hatton – UKPN

Yeah as Basil says that we're on track to deliver the health index output that we're required to deliver over the ED1 period, and I think it's fair to say that over the DR5 period we spent more on asset replacement than we originally sort of planned - we had quite a sizable portfolio of defects we needed to address that period. That was done. We're bringing our spend back in line with what the average is for ED1 and DR5.

The thing is, when we're looking at replacement of assets, again, we're not just putting forward a plan and saying - right, that's it. We continue to look at the condition of the assets and we focus very much on the poorest condition assets, and if you look at the table or the graph that we've got on page 98 of the plan in Chapter 10, it gives an explanation if you like as to how we're managing small increasing risk that the plan delivers, but you can see that we're tackling more of the poorest condition assets there. So, we expect to deliver a 15% reduction in the worst condition assets as part of the plan.

Basil Scarsella - UKPN

Christine, importantly, spending in line with the asset replacement or load related reinforcement, spending in line with the allowance, it seems to me certainly we look at it as lazy management because it prevents innovation and, in the end, customers pay more for our services, which in our view is unacceptable.

Christine Farnish – Ofgem

Well, I'm certainly with you on innovation and customers not paying any more than they have to. But just to let you know we'll be looking at every pound of extra spend very, very carefully because we're extremely conscious of the importance of making sure that bills are affordable as we go through the next period, and we encourage more innovation.

Basil Scarsella - UKPN

I'd expect nothing less - I agree with you.

Christine Farnish – Ofgem

Good thank you.

Basil Scarsella - UKPN

It's important that the ex-ante allowance is not too high because that is simply maintaining customer costs.

Jonathan Brearley - Ofgem

Well, Basil, that actually brings me on to one of my questions.

Now clearly the profile of your spend versus sort of the range of plans that we see it does show that you've gone for what looks like a tighter baseline versus re-openers. Something we hear from others is, you know, a concern about the pace at which investment will need to be agreed, so my question is really simple; is that a concern for you for re-openers and what should we be doing to mitigate that risk, given that you guys have clearly gone for a much more flexible spending process than perhaps others have.

Basil Scarsella – UKPN

Yeah Jonathan. Firstly, the reason why our plan is structured the way it is, it's obviously for customer benefit and also we've taken the very clear guidance from Ofgem and adopted an adaptive regulatory methodology which I think is for the benefit of customers – Sul do you want to address?

Sul Alli – UKPN

Yeah, I mean I think, Jonathan, the way I can answer your question is to say - look, we could have taken the easier path, right? And the easier path is put a big fat totex increase in, build assets. The supply chain is known to us, the costs are more familiar to us, but actually, do you know what? Delivering demand side management, delivering through technology, delivering through flexibility, offers a chance to be massively cheaper and if you put a big plan in, all you do is you foreclose on those lowest cost pathways, so we put

our money where our mouth is. We didn't just talk about flexibility. We said, OK, look at the investment; 40% of our ex-ante capacity need are delivered through flexibility, your own analysis, Ofgem's analysis showed we've got double the amount of flexibility spend in our plan compared to the rest of the industry combined.

So, we say what we mean and we're going to deliver this. We've made very stretching commitments. Basil has pushed us on things like the DSO, and we're going to do it.

We're going to show a new way of working in ED2, which we think will be copied in the book.

Basil Scarsella – UKPN

From an Ofgem perspective, Jonathan, I think we're working very constructively with your people at Ofgem, but we encourage the establishment - the agreement on uncertainty mechanisms, which I think are going to be vital for ED2.

James Hope – UKPN

Can I just say in response to Jonathan's question that I think working with Steve and the team, things like volume drivers at the secondary network are that means of putting the right investment in at the right time rather than saying a plan put in in December '21 will be right all the way up to 2028, and I think what we try to work through with your team, Jonathan, is something that gives that transparency and that visibility as we work through ED2 and with the right time frames in those mechanisms, there should be no reason for anyone to claim that there's a blocker to the funding.

Jonathan Brearley - Ofgem

Thank you and look, just very quickly, you mentioned DSOs. That was the top of your presentation. Can you bring to life the change that makes?

So how do you turn that into - what will the world look like that is different for your customers?

Basil Scarsella – UKPN

Jonathan in simple terms, look at - and I'll come back - anybody spending in line with the allowance given the plan was an eight-year plan, built two years before, so it's a 10-year plan and you build in line with it, you spend in line with the allowance – it's simply not credible given that only 20% of low carbon technologies have come onstream. That as an – that the end result of that approach is that customers do not believe that we are there to provide the best solution for them. We are more interested as a monopolist to build assets because that's when the value of the business increases. Then DSO simply says – look, keep the DNO honest and make sure that all the investment that is undertaken is actually the best solution rather than ask for ex-ante allowance upfront and spend it to reinforce the network and therefore prevent other technologies, flexibility, batteries etc. - not to come on board because the network has been reinforced. And we're saying we will have an independent board, right, with very clear guidelines. The articles of the company put very clear legal responsibility on that board to act in the best interest of consumers and any disagreement between the DNO and the DSO will be reported publicly on a regular basis in simple terms with - the aim to give customers the confidence that we are providing the best outcome for them.

The other issue that I see – the DSO not just be restricted eventually to load related expenditure, but I see it even going to fault repairs. Why should it be that in UKPN we repair faults, we spend hundreds of millions of pounds every regulatory period, but we never go out and test the market.

The DSO, eventually, I see actually enabling and getting the DNO to go and test the market for just about everything we do.

Jonathan Brearley – Ofgem

Brilliant, thank you Basil. I'm going to now hand over to Steve who is going to comper questions from stakeholders.

Steve McMahon - Ofgem

And we've got quite a few there in the sidebar, so I think first up we're going to go to Polly Billington from UK100 with a question on local planning, so hopefully Polly, your camera and mic will be enabled, you just have to unmute yourself. I think from your laptop. Please say we've got Polly, no nothing for Polly. So maybe I'll go to Ben in the meantime - Ben, do you want to ask a follow up question just on cables and we'll see if we can line up Polly?

Ben Burke-Davies - Ofgem

Yeah, I noticed that the top of the meeting you talked about extra investment in fluid filled cables. I mean from what we can tell from what you said in your business plan, you made a 25% reduction in leakages, having spent around 50 million over the course of ED2, and you're proposing now to spend over 150 million in ED1 - sorry looking to spend over 150 million in ED2 and for that investment consumers will see a 15% reduction; so, are consumers really getting value for money from that investment?

Barry Hatton – UKPN

Yes, indeed, knowing how - since the customers are around the environmental challenges of what our assets are, and you know in response to the challenge that we had back from our stakeholders. That's why we changed the plan between draft and final. Most of all why are we tackling this now? Well, with our proposals will change out about 7% of the asset works over the next couple of years. We've got the largest fluid filled cable population out of all the DNOs, and we stuck at that rate it's going to take us another 70 years to replace the lot, but it just says look, we're focusing in on those assets that are poorly performing and we've reached the point where on our sort of existing strategy, sort of patch and repair, has probably gone as far as it can, and unless we get this sort of step change in replacement, we could potentially see a deterioration in performance, so part of the reason for putting more in the plan in the first place was to address best that particular point. Why haven't we done more earlier? Well, actually our priority has been in ED1- deal with our gas cable population, because particularly in London there's quite a lot of interaction between our gas cables and our fluid filled cables. And because of the reliability problems with the gas cables, we need to get them addressed first before we can take the long outages we need to do, particularly, some of the refurbishment of some of our projects we wanted to do with our fluid filled cables in ED2.

Steve McMahon - Ofgem

OK, thanks and I can see Polly now, so hopefully Polly, we can hear you.

Polly Billington – UK100

Yes, thanks ever so much. I'm sorry about that technical glitch, I was just - structures that you've got for engaging with local government and we're interested to see what success looks like as a process as a result of that. Given your proposed approach, what do you expect to have achieved by April 2024? How will you know you're on track? What's success is going to look like?

Sul Alli - UKPN

Hi Polly, good morning so I think success looks like this. We will have established a 20-strong team of energy experts under the DSO.

We will have a framework that we've co-developed with county councils in our patch that we would have scaled out and road tested with many of the regional authorities and we will be getting very positive feedback from them which we are going to measure on a regular basis to be able to course correct and improve our services that we provide to them.

Ultimately the test of all of that will be whether additional investment is unlocked consistently and on a quick time frame.

So the issue that we see that a lot of our engagement has taught us is that there are climate ambitions and climate targets. But in order to build to invest and protect customers, we need to make sure that those targets are deliverable, that there's funding backing them, and there's a good level of analysis and support. So, we've come up with a framework co-developed with local authorities; our view would be by 2024 we've done a lot of the tier assessments that we've described in the plan. We've got a team up and running and we're getting good stakeholder scores about the provision of our services.

And lastly, we are actually developing a tool today to be ready for ED2, which allows regional local authorities to be able to undertake options analysis across different vectors through some kind of self-service portal. We're actually developing that today together, co-developing with the regional authorities and our patch and our view is that that should be ready in 2023 to actually help local authorities who tell us that they lack the resources and the financing and sometimes the expertise to be able to self-serve some of those things.

Polly Billington – UK100

Thanks, can I just have a clarification. So, you've mentioned every County Council so I can see there's a range of different tiers of local government in your patch, and I wanted to make sure that you're engaging with all the tiers that have got spending and regulatory powers that might impact on the energy system.

Sul Alli – UKPN

Yes, that's right. We've got 127 local authorities in our patch. We've got 12 county councils plus the GLA plus a number of boroughs so we're covering the whole shooting match, we made a commitment to do that. Now what we've done is we've looked where does it make sense to engage with the County Council but some of the plans are regional in their nature. Sometimes we have to go to a local authority, so we need to cater for whichever scenario is appropriate in our three regions that we covered.

Polly Billington – UK100

Thanks, will be interested to see how this - how you develop those metrics for success, because I think the sophisticated nature of what you've suggested means that there might be the support that's needed, but we're specifically looking at how local area energy planning might be facilitated and making sure that local authorities know-how about their communities is factored in to the DNOs plans for the energy system rather than just the other way round.

Sul Alli – UKPN

Yes, absolutely, and that is implicit in our in our strategy when we've, you know, when we looked at this area, you know it's the local authorities that in the driving seat, we are a partner of many, one of many, but what we're doing is not just putting words out there, Polly, we've actually developed – co-developed a framework. We've got support of - listed in the appendices of our plan of just about all of the county councils who are saying this is a great approach.

It's practical, it's getting things moving and what we're going to do is turbo charge up with resources and tools in ED2.

Polly Billington – UK100

Thanks very much.

Steve McMahon - Ofgem

OK, thanks Polly. I think lined up next we've got Andy Manning from Citizens Advice. Just unmute yourself Andy. There you go.

Andy Manning – Citizens Advice

Good thanks, thanks to you. Good morning, good morning all and thanks for everything so far. It's been very interesting. So my question is relatively simple to say at least. So if your plan was accepted by Ofgem, what would you be saying to investors about the likelihood of outperformance?

Basil Scarsella - UKPN

Andy, we will be saying as we've done in ED1 - we will aim to deliver for customers and customers meaning reliability, level of service, stakeholder engagement and therefore maximise incentive and then innovate to provide - to deliver the ED2 commitments at the lowest possible cost. So a high performing group of networks, in our view, should be aiming to do that. And if you do that, if you deliver the commitments, provide great customer service, reliability and underspend and then you by innovating as Barry has already outlined - then we will be able to earn a return which is better than the allowed return - cost of equity. If we don't deliver on the incentives or innovate and spend more than the amounts then we would deliver a return which is lower than the allowed return, and under those circumstances there will be a new CEO explaining why that's happened.

Andy Manning – Citizens Advice

Basil, are you expecting to outperform? That's my question...here today.

Basil Scarsella - UKPN

We regard ourselves as a high-performing group of networks with a highly engaged workforce, and if we accept the definition of a high-performing network in the way I've just described then that is the expectation. If we do not earn incentives and innovate to underspend or flex our spend if the LCTs don't come about then we've failed, it's simple. We're not as high-performing as we currently are if we don't continue to innovate, underspend, provide great customer service and reliability to earn incentives. That is what incentive regulation is based on.

Andy Manning – Citizens Advice

OK, thanks, Basil.

Steve McMahon - Ofgem

OK thanks, thanks Andy. I think next, EVs is going to be such a focus of ED2 and the time in our connection, so we're going to bring in Dan Riley from BP Pulse, hopefully Dan your camera will be enabled.

We've not got that. You need to unmute yourself, Dan. No, we've not got it.

I think just on the - I'll read this one because I think it is important so - 'Demand for connections to sites providing high-speed charging as well as demand for work on connecting home charges will increase dramatically through the period of ED2. So, Basil, do you anticipate any delays, any delays at all from the DNO perspective to delivering this work in a prompt and timely way, especially in the high-speed and ultra-fast charging hubs and if so, what SLAs are you expecting?'

Basil Scarsella - UKPN

Yeah Steve, if we are a blocker, in other words, we delay customers or connection work, then we fail and certainly we will not achieve 93 plus percent customer satisfaction. Secondly, we plan to introduce a separate customer service survey for low carbon technology customers, for EV customers, both at a commercial level fleet, for record charging hubs and the general public so that we are clear that that we're providing the level of service at 93% for those LCT customers.

Sul Alli - UKPN

Completely agree with that. You know, if you think about it a business operating in a competitive market, what would they do, right?

They wouldn't sit there waiting for connection applications to pop in the post, right? You have to actually work with your market to understand what the needs are and get ahead of demand.

So what we're currently doing today is actually working with the full range of our customers to understand what their forward plans are, particularly in the high-speed charging market so that we can get a view on what capacity is going to be needed and when it starts to optimise.

That is a process that we're doing today. That's part of ongoing engagement of being a high performing business.

That allows us then to understand what - where do we need to make sure that we're ready to deliver or potentially third-party whether the ICPs or other organisations can deliver.

We make commitments about opening up work that's currently non-contestable to the market to provide that extra resilience as well as competition and value for customers.

In terms of the domestic market, and you want to put a charge point in your home, what we're trying to do there is to completely remove the friction from that.

So, we were the first DNO to put automated tools online to basically check that you can get a fuse upgrade, the likes of Centrica and others have commented on that publicly. What takes 10 days, 15 days for others takes a few seconds for us and what we've also done is we've made sure that where we could be a blocker, for example, if your service needs to be unlooped, we've put proactive investment in the plan to actually address those things in an appropriate way, and that was one of the reasons why our investment increased between the draft and the final plan. Now any strategy can be a core strategy, but you got to monitor and course correct and in chapter eight we do exactly that. We've listed out SLAs that we're going to keep ourselves honest on and to use that to actually course correct our strategy if it's needed, given the uncertainty we face.

Steve McMahon - Ofgem

OK, thanks, Sul. I think just maybe turning to the environmental theme. I think we've got a question from Judith Ward at Sustainability First, so hopefully with the wonders of technology we can get Judith's camera and microphone enabled. There we go. I can see Judith coming up. Hi Judith, go ahead please.

Judith Ward – Sustainability First

Good morning everybody. Sustainability First is a think tank and a charity. In the Ofgem call for evidence, we looked across each DNO environmental action plan with a particular focus on DNO plans for decarbonization, including own decarbonization, so in your environmental action plan, which is Appendix 16, can you tell us what your total EAP spend is? But importantly, what percentage share have you chosen to spend on oil leakage - we've already heard about that this morning - PCB elimination, losses management, SF6 management and biodiversity? And can you tell us why you've gone for that percentage spend on each? So really, underneath my question, I'm asking what trade-offs have you made between

proposals for pollution compliance, which are pretty high spending, against some of your proposals on own business decarbonization.

Basil Scarsella - UKPN

Judith - again this is a combined answer. I think with Barry, Sul and a quick introduction myself, but the short answer as to how we've gone about - in our view, it's based on a commercial business case where it makes sense to repair or replace to prevent oil leaks PCBs, SF6 - that's when we do it. If it doesn't make commercial sense for customers, then unless it's an emergency we will not...Barry?

Barry Hatton - UKPN

Well, if you take the PCB ones first, there's the deadline to achieve compliance on that which is the end of 2025. What we've included in our plan is to replace the assets that we believe will be impacted on that by that date. So, there's a number of ground-mounted transformers but principally the biggest asset that's impacted is our pole mounted transformer population.

And now in changing that population out actually there are some other benefits because as we put new assets in there will be of a much lower level of loss and will have an impact on the losses profile that we will see there, which brings me onto our sort of approach to losses.

We do expect that, you know, our losses will be impacted as we go into ED2 as we drive up the level of utilisation.

There's inevitability that the losses will increase as that utilisation increases. Now we may achieve some offsets by, you know, shaving the peaks, reducing some of the peak losses, but that will be sort of covered off by the increases in the general levels of utilisation there. But what we're doing to address that is when we're replacing assets and when we're putting larger sized assets in place, whether that be cables or transformers which will have an impact on loss reduction as well. But everything that we're doing on there and we've systematically been through every level of the network to sort of say, right – well, what's our approach to try and address losses of that?

So, if we look at the sort of three biggest areas of where our losses are occurring and so our LV networks at 28%, our HV circuits at 29% and our transformers at 18% - when we sort of look at the breakdown of what we're doing on that, certainly on the sort of transformers - yes, we're going to replace around 2,100 transformers on asset replacement alone in that period. We'll also be upgrading a number of transformers - that will have an impact, particularly on low load losses and as the transform - the PCB programme itself is going to take out about 12% of our transformer population and help there.

The other parts of the - as I say, we've systematically been through every voltage level. So, whether you're looking at cables or transformers where are these in the very latest specification, the largest physical size cable that we can get that we can actually, sort of, get installed and then on pole mounted transformers and particular smaller sizes and we have developed this, sort of, amorphous core transformers there which have very low level of low load loss.

But coming back to the sort of main point, every intervention that we're going to be doing in ED2 is going to have some impact on losses in some form or another but at the end of the day it's going to help mitigate the increase that we expect to see in in losses there.

Judith Ward – Sustainability First

But what I'm trying to get at is the proportion in spend that you have opted for between the different elements of your environmental action plan.

I mean, it's quite hard to get at the numbers, but for UKPN on oil-filled cables 67% of your environmental action plan envelope is committed to oil-filled cables as against 2.6% on SF6 for example, or biodiversity

less than a 1/4 of a percent. You propose to spend more on offsetting - £700,000 - then you do on biodiversity - £500,000.

And when one looks at what other DNOs are doing and as I said, it's very difficult to get at the numbers - whereas you're spending less than 3% on losses and on SF6 - you know, there's another DNO, for example, that's spending 13% on those things.

So, I'm trying to understand how you've got at these trade-offs, given that you're spending such a very significant proportion of your EAP spend on pollution compliance.

Barry Hatton - UKPN

OK, I think we need to pick up...when you look at the totality of our asset replacement spend, that is all going to be contributing to loss reduction. Every element of that asset replacement programme in some form or other is going to be contributing, and likewise the load related programme.

If we come onto the SF6 piece, the SF6 losses make up about 4% of our carbon footprint...loss that there is there, we've got 45,000 items of equipment containing SF6 across our network, it's not a quick fix. If you look at our performance, actually, we're networks one, two and three in terms of the smallest level of losses from our SF6.

Judith Ward – Sustainability First

Yeah, your leakage is low, your leakage is low compared with the others -

Barry Hatton - UKPN

But we want to go further, we're the first company to actually - I mean if you look at our strategy on SF6, one is contain the growth of SF6. Are there non-SF6 solutions out there? And we've already deployed 132kV circuit breakers without SF6, you know, the first to actually get them on the ground. You know, we've got a 33kV switchboard now that we've got installed which has got non-SF6. We're going to be the first to actually deploy a G3 equivalent of 132kV with non-SF6 and so we doing our damndest to sort of mitigate the increase in the size of population.

The big win for us is going to be getting a ring main unit manufacturer to actually come up with a design, and I'm hoping that we'll have a beta test unit at one of our training centres by the end of the year, on that.

So that will help us contain the growth of SF6. The other thing is we've got a very, very low leak rate. We've set ourselves a more stretching target in ED2 than we've had any ED1 and we will need to get onto the case that much more quickly when we do identify a leak. Now, with the result of all the deployment of more monitoring that we're going to get in our substations, we get the opportunity to actually pick up the alarms on more of our equipment than we've done in the past, so getting onto leaks quicker is going to be a big part of our strategy and we're doing some work - we're looking at other innovative solutions.

In fact, I've got one of my guys going over to the US next week to work with EPRI, looking at what they're doing there to help identify other solutions, so it enables us to sort of fix leaks more quickly.

And so, I think on that front you know it's - you want to see where this specific spend? Yes, we've identified about £6 million in spend associated with SF6 in the plan over - by having non-SF6 solutions but I think the thing is, you see, any element of that plan is actually contributing to, you know, other loss reduction or pollution mitigation.

Judith Ward – Sustainability First

So one very last question from me, which is can you just explain how your stakeholders inputted to this kind of - to this discussion on trade-offs between spend on pollution compliance against spend on own decarbonization?

Was there a really detailed discussion between those two areas of your environmental action plan?

Steve McMahon - Ofgem

And really briefly, please, Barry, I think we're going to have to wrap this session up.

Barry Hatton – UKPN

OK, well, part of the engagement sessions we've had these topics were raised and in fact the result of some of that engagement has resulted in changes of the targets that we're setting ourselves on ED2.

Sul Alli - UKPN

Yeah, we had an Advisory Council on this specific area. Page 119, Judith, lists out the costs; £200 million in network costs overall, £30 million operating costs and the trade-offs are very clear, actually. We - you know, it's all well and good saying you're going to do more and more, but that's going to cost money and therefore what we've tried to do is maximise the impact for the lowest possible cost, as Basil has said umpteen times on this call, I've lost track of it, the amount of times he said it - and actually those trade-offs are very simple, we want to minimise regret spend where technology types could appear that we can't foresee today, we want to maximise the impact of every action that we do, whether it's on carbon or losses or whatever, and we want to keep costs down and it's those three things that we're actually trading off in real time every day.

Judith Ward – Sustainability First

Thank you.

Steve McMahon - Ofgem

We've ran over a little bit in that session. Five minute break before starting on the second session. Apologies to those who had posted questions and we had lined up to come in, but we will make sure that there are full responses given over time.

BREAK

Jonathan Brearley - Ofgem

So now we're going to turn to providing world class services and ensuring nobody is left behind. So first of all, I'm going to ask Ashleyle Gunn, a member of the Customer Engagement Group to give their views on the company business plan and any questions they wish to pose to the DNO panel.

Ashleyle Gunn – CEG member

Thank you, Jonathan and good morning everyone.

So UK Power Networks, the CEG challenged your ED2 customer research extensively and you stated in your business plan that you didn't get everything right first time.

However, the ambition of your ongoing engagement proposal shows you've learned from that experience, and those proposals are important not only for ensuring that you deliver services that reflect customers' needs and preferences, but also for your ability to make the forecasts on which your Net Zero transition strategy depends.

What insights do you have about the views of your customers and stakeholders about the trade off in the business plan between not blocking the low carbon transition and the risk that customers pay too much?

And how do you intend to keep the balance of these risks under review during ED2 as events unfold?

Sul Alli - UKPN

Yeah thanks, Ashleyle. I mean, it's something that has definitely preoccupied us as it's something that we thought about quite extensively internally with and through our engagement with both customers and stakeholders, and essentially what we've done is, we see the - you know, if you think about when we did the engagement and the research it was pre the cost-of-living crisis and the issues that we see currently today. And even then, customers were - what we found, we learnt was actually a lot of customers didn't actually understand the mounting costs that they face regardless of the cost-of-living challenges that are now transpiring, a lot of people didn't actually understand what decarbonized heating actually meant and what that meant in terms of costs potentially to achieve Net Zero in their own lifestyles.

So, I think, you know, customers are at the start of that journey themselves quite frankly, and if we're to achieve Net Zero as a society there needs to be a step-up in both education awareness and engagement with customers about the choices they're going to need to make for us to be able to hit Net Zero as a country.

In that context, we didn't think it was appropriate for network companies to just basically jack-up costs and basically say that because we have got a Net Zero target we've just got to plough on.

As I've said before, we think there's opportunities for this to be massively cheaper and actually include customer participation in the Net Zero transition and that's what our whole business plan is predicated on, that's why we've gone for a smart plan - that as soon as customers will participate in smart tariffs, they will basically adopt energy efficiency and flexibility so that we don't foreclose on those lower cost options.

In our ongoing engagement programme, Ashleyle, we know that the cost-of-living crisis is going to change customers perceptions and we may need to re-look at the trade-off between risk, cost, service. So, what we made a commitment to do is to continue that dialogue through the delivery of the ED2 plan using sophisticated things like citizens panels that allows us to unpack these complex issues on a more ongoing basis. We're not doing engagement just for a price control. This is something we're going to need to keep pushing and incorporating as we go through the ED2 process.

Ashleyle Gunn – CEG member

Thank you, Sul, and just to follow up on that - the second part of my question was about how you intend to keep the balance of the risks under review during ED2 as the events unfold. So, the risks of the trade off and where you've landed between not blocking and customers paying too much, what additionally, are you planning there?

Sul Alli - UKPN

So, what we're planning to do is to incorporate a concept of citizens panels into our ongoing engagement approach, where we'll be constantly exploring that trade-off with customers as more information becomes available, as their awareness increases, and as the cost-of-living issues unfold over the course of time, that's what we're going to do. In parallel to that, we're going to be monitoring customer feedback in terms of key performance indicators and stakeholder engagement scores that we've listed in Chapter 8 page 58, where we've got a set of KPIs that will allow us to understand how we're performing and how we need to adapt our services or our strategy to continue to be the best performing company.

Basil Scarsella - UKPN

But, Ashleyle, I think your question was the trade-off between avoiding being a blocker and paying too much. I think the commitments we've made in the plan will make it pretty difficult for us to actually be one or the other, because we're saying we've adopted a low ex-ante allowance therefore we need to be aware of what's happening in demand, and our plan is a demand-based plan. Wherever the demand arises, we will respond with providing the capacity that's required at the lowest cost using the various technologies.

But at the same time delivering 93% customer satisfaction and that will – it's the two combined that you know - we cannot, it is impossible for us to - if we can't deliver 93% because we're causing delays in customers charging their EVs, for example, because we're too slow, then we might have to spend more money trying to address it, but both of them need to be delivered.

Ashleye Gunn – CEG member

Thank you Sul, thank you Basil.

Jonathan Brearley – Ofgem

Great thank you Ashleye, and now over to the Challenge Group, is this Roger or is this Bob again?

Roger Whitcomb – Challenge Group

Good morning everybody, just a question about your vulnerability strategy - and as you will have seen from our report, we thought your strategy was pretty good, pretty strong. It was practical, had a clear vision and it was based on extensive research and with a good objective. You're also planning to spend an awful lot more than any of the other companies on this strategy, £40 million in my estimate, which again given recent developments, is probably absolutely the right thing to do. However, the more you spend, the more important it is to demonstrate that that spend is efficient and is providing value for money.

So my question is, how do you propose to demonstrate and to provide evidence that this is an efficient and value for money programme?

Sul Alli - UKPN

Hi Roger and thank you for your question. This came up, I think, in the Challenge Group's report as well, particularly in terms of the level of expenditure that we've put forward and my answer to it is this, right, we, you know, we've been very clear about the support we're going to provide. This is not just about handing out leaflets and then claiming savings. We've got a core programme of indepth support that we're going to provide to customers as face-to-face, or virtually as we're doing here today to understand vulnerability in their situation. To understand how energy efficiency, income maximisation and tariff switching type opportunities could deliver, say, the real savings for customers. We benchmarked those costs because any pound we put in that plan we need to be damn well sure that it's actually going to deliver value. We benchmarked those costs and market tested them to make sure that the service we're providing is getting good value. Based on the information we got from the market, we put a stretching target on those costs, but we've also basically put our money where our mouth is in that we're putting our own funding into this, about £9 million and we're seeking match funding from customers so we're incentivized to basically deliver the biggest value for the lowest possible cost and we put in our plan, I think it's in chapter nine, we talk about seeking independent assurance on the SROI calculations. We've even asked whether Ofgem would like to appoint someone, a party to do that verification, or we can appoint someone independently and they would produce a report every year to say this is what UK Power Networks has delivered and we either accept or do not accept their calculations of savings. So, by putting our own money, benchmarking and market testing those costs, I think we feel we've done everything reasonably practicable and will be held to account for that.

Roger Whitcomb – Challenge Group

OK, thanks. I have another question, if I've got time, Steve, which is around your plans for developing information and support on low carbon technologies to vulnerable customers.

I think you say there that you also acknowledge that you may not be best placed to offer this type of support when you might add it to somebody else, somebody else in future; I'm just wondering how you

could clarify which of these activities you think you are best placed to provide and why you're proposing activities that might be beyond it.

Sul Alli - UKPN

I think this plays into the heart of how do you deliver a low-cost energy system, Roger, and, you know, energy efficiency is very much part of the mix of the topic that you've just described and it's you know, a win in terms of lower cost, lower bills, lower network costs and reduced carbon. So when we looked at this area, you know, it was clear to us and when we talked to customers about it and stakeholders, they expect us to show leadership, but they expect us to work with others. We're not just going to do this ourselves, so we've looked at all of the touch points we can have with customers and stakeholders. You know if customers come to us with a low carbon technology connection request enquiry, there's nothing wrong with us signposting them to information about how they can use their energy more efficiently. You know, we've got 240,000 homes off gas that we're looking to decarbonize heating for starting in ED2. We've proven through pilots in ED1 where we can work proactively with those communities and with trusted intermediaries as a team, we can deliver stellar results. In the example of the community, I'm talking about in the South, we think there's a 20% improvement in energy efficiency just as a result of working proactively and working together.

So, we're quite confident based on our track record of these pilots, that if we can scale our engagement up, work with others, not in isolation, but work with others but bring the UKPN secret sauce, which is typically set targets, be clear on accountability and then manage it to within an inch of its life, it's how we manage this business. That's what we're going to propose to do in these other areas.

Roger Whitcomb – Challenge Group

Fine, I guess the question is I get all that but why - you don't have that frequent contact with customers compared to, say, to a supplier.

Why you rather than the supplier doing this job, you don't want to -

Sul Alli - UKPN

But if a customer comes to us, if a customer comes to us to get a connection upgrade, why would we not use that opportunity? I don't - I think it's not reasonable as a leader in this business to sit on our hands and say it's the supplier's job. We've got an interaction there. We can do that. If the community is looking to decarbonize, and we're one part of a coalition, why can we not, basically signpost them to information and bring in trusted intermediaries who they not may not be familiar with or know about?

Basil Scarsella - UKPN

Roger, if we expect the LCT take-up that that we're predicting, then our interaction with customers would increase exponentially over the next few years, and I think it's important that we understand and we can help customers wherever possible and not saying, you know, the only focus is providing the network.

Jonathan Brearley – Ofgem

Great thank you Roger, now going to open it up, Christine, to you or any other Ofgem members.

Christine Farnish - Ofgem

Yes, a quick follow up if I may. Your support programme for vulnerable customers sounds laudable. However, you're a large and well-resourced company and it's quite right that you should show corporate social responsibility in your own right.

So why are you not proposing to fund this entirely through your own charitable foundation? Why are you expecting other hard-pressed customers to put their own hands in their own pockets to co-fund this - it actually benefits your reputation.

Basil Scarsella - UKPN

Christine, certainly it benefits our reputation, but I think what we've struck is a reasonable balance between funding it ourselves and putting some of it into the totex allowance. I think you will find we've probably gone further than most in funding it ourselves.

Jonathan Brearley - Ofgem

Christine, do you want to follow up on that?

Christine Farnish - Ofgem

No, my question stands, and I'm interested in the answer. Thank you.

Jonathan Brearley – Ofgem

Thank you and I think given time I'll ask you Steve to open it up to stakeholders.

Steve McMahon - Ofgem

Yes, I think we can do, I think there's some questions coming in and we'll get Andy Manning from Citizens Advice lined up...Ben have you got a follow up while we've got Andy getting ready?

Ben Burke-Davies - Ofgem

I just want to ask about reliability; all the other DNOs in their business plans have set clear and specific targets about improvements for performance on customer minutes lost and customer interruptions in ED2. I was just curious why UKPN hasn't.

Basil Scarsella - UKPN

Yeah Ben, firstly, my understanding at least that some of the other DNOs have included spending totex to improve reliability, which to us doesn't make any sense. I'm expecting reliability to be incentivized and therefore for us we shouldn't be having totex allowance to improve reliability so we can earn incentive. That doesn't make sense to us, and certainly it's not in line with low cost to customers.

James Hope - UKPN

Thanks for the question, Ben. Yeah, definitely we have not put a specific target because our reading of the SSMD is that targets will be set by Ofgem. We know that you've got a working group this week where you're proposing some further potential modifications to targets set for ED2. I think the other thing that we made clear – and I think the Challenge Group picked up on this - was the absence of incentive rates from Ofgem for us to be able to calibrate the expenditure that would be required to deliver against those performance targets. So, what we've clearly said, as Basil has articulated and also in response to Andy Manning's earlier question is we will respond to the incentives that are set out in draft determinations, final determinations and as we have done in ED1, we will seek to meet, and if not outperform those targets once they're set. But we've definitely not asked for ex-ante customer funding to outperform targets set by the regulator – it's almost the inverse of your proposed outperformance wedge, asking for money to beat targets that you've been set. We've definitely not put that in the plan.

Basil Scarsella - UKPN

Our track record also, Ben, on reliability, is pretty clear as I said in my opening remarks. We've gone significantly far and above, at least in the two networks in LPN and EPN and why improving reliability, way above maximising the incentives.

James Hope – UKPN

It's worth just touching on as well, Basil, I think, Ben, the bit that our customer research in our engagement with our CEG pointed us to. Whereas a lot of customers are quite happy with the average levels of reliability that the IIS measures, but there was a strong push to tackle worst-served customers, which is what we did put in the plan, and also to look at how you could involve the incentive framework for the future, which is why we put two bespoke metrics in; total time not supplied, and report and repeat power cuts into our plan.

So again, this was a key area over the two years with the CEG of not just relying on the Ofgem framework as it stands now, but looking at how we could develop that framework for the future.

Steve McMahon - Ofgem

OK, thanks James. I think we've got Andy lined up - so Andy, do you want to just unmute yourself?

Andy Manning – Citizens Advice

Hello again all, I'd just like to follow up on a couple of the areas if I can, that we touched on earlier. So, I put in a question about energy transition support and if there's time, I'd like to ask one about shareholder fund as well.

So, I agree with what Sul was saying earlier entirely about the need for us all to step up on the support and information for customers on the energy transition.

What I'd like to explore a bit further is how you perceive the DNO's role. So, do you think that providing energy transition support as an individual company is better than the delivery of that support and advice being coordinated at a national level, so is there a risk of a patchwork?

Sul Alli - UKPN – UKPN

I think the answer is both. You need a national strategy overall and then you need local coalitions working with communities that have the knowledge networks and the contacts to be heard and listened to, and I think it's not one or the other it's both and therefore it's not a single company. It's companies working in partnership with others. You know, the whole point of whole systems is that these energy vectors are going - and other vectors like transport - are going to collide in the future or are colliding right now today and therefore we need to be able to work in broad coalitions to make the changes happen.

That needs to happen at a local level. That's the reality, but it also needs a national coordinating framework, so you need both, not one or the other.

Andy Manning – Citizens Advice

Thanks, Sul, just follow up on that briefly - as a national approach emerges, do you see that then changing what your role is potentially?

Sul Alli - UKPN – UKPN

I think we need to wait and see what to see what that is, yes; that's the whole point of ongoing engagement is to change - is to adapt your strategy based on the changing external environment and we will continue to do that. That's a key part of why ongoing engagement is so key.

Andy Manning – Citizens Advice

Thanks, Sul. Steve, am I alright on a quick follow up on that?

Steve McMahon - Ofgem

Yes, please do.

Andy Manning – Citizens Advice

It's a little more specific. So, we talked about the £9million, Sul, and that being matched by customer funding, so I was just wondering is that - does that make that contingent on the customer funding? So, say the £9million that the customer funded was not accepted as part of the customer value proposition. What would that mean for your shareholder funding - is the one contingent on the other?

Sul Alli - UKPN – UKPN

So no, we would continue with that, but it would mean that less customers would see - would get the benefit.

Andy Manning – Citizens Advice

Thank you, Sul, that's very clear.

Steve McMahon - Ofgem

OK, thanks Andy. There's just a few questions that are coming through in the chat now, so we'll work those through.

Just going back to, not reliability, but resilience, and Basil, in your introductory presentation you talked about the recent storms. So, there's been a number of storms, obviously, that have had a massive impact on the networks through the winter.

Most notably, I think Eunice and Franklin for UKPN last month and a lot of debate about what more can be done to improve outcomes, improve restoration times, and improve customer service.

So, I'd like to understand is how much of that is factored into your plan? So how will the investment that your proposing allow you to better respond to these type of events going forward, but supporting those faster restoration times and improved customer service?

Basil Scarsella - UKPN

Firstly, let's look back in ED1 - and you saw in my initial opening remarks that how we focus on resilience, and we've worked with the Cabinet Office-backed EPC to improve our resilience and I think as I said earlier, the results are there to be seen as, in terms of Eunice and to a lesser degree, Franklin. Now, going forward in terms of expenditure, I mean faster, restoration times inevitably would require more resource in terms of line person resource which we are not including - we haven't included in the plan but the aim from an asset management perspective, however, is to reduce the number of faults, the number of interruptions which should improve the restoration plan...Barry?

Barry Hatton – UKPN

Yes, I mean in the plan we have put in increases in the scale of pole replacements, in particular, to sort of harden up the overhead line network more and likewise some sort of small section conductor replacement which we sort of see as the issues that seem to come through both sort of Storm Arwen and our own local experience there, but you couple that with continuing investment in levels of automation to allow the networks to reconfigure in the fastest way possible to get customers reconnected. At the end of the day, you know, there will be the need to harden more of the assets, I believe, if, you know - if the proposals we

put forward will make a significant impact on that, it builds on what we've been doing through DR5 and ED1 in increasing – year by year increasing the volumes we're replacing, but also that coupled with technology plus the greater level of visibility that we'll have on what's going on there will help drive further improvements and sort of reliability and resilience.

Steve McMahon - Ofgem

OK, thanks Barry.

I think we're going to go back to stakeholders, I think Chris Watts, hopefully from S&C Electric on short interruptions.

Chris Watts – SSE Electric

Hi there, thanks very much, Steve. Chris Watts from S&E Electric Company.

We really welcome the standard on multiple short interruptions and the target for 10% improvement in short interruptions that Basil referred to earlier in his presentation. How has UKPN decided on appropriate level of these commitments and also how does it consider that these should be extended back on a broader industry level?

Basil Scarsella - UKPN

Yeah, Chris, firstly we would have liked an incentive regime around - for the sector - on short interruptions because I think that is an area that needs to be addressed but having failed in getting an incentive regime, what we're saying is we will reduce short term interruptions by 10%. And it's an arbitrary target in lots of ways but I think it's a good way for us to start focusing on something which I think eventually will become - will be inevitable that we - we need to focus on those short term interruptions because I think you will find that if you look at short term interruptions while longer term interruptions have decreased significantly the short term interruptions have actually gone the other way.

James Hope – UKPN

Yeah, I mean, I think 10%, Chris, comes from our analysis of some of the industry data that you look at in terms of CI and CML improvements over time and as Basil says - originally, our intention working through the Ofgem Quality of Supply group was to put in place a common short interruptions framework across all licensees so all 30 million GB customers would be afforded the same level of protection. I think in the absence of something common we still thought it was appropriate and this is something we discussed and debated with our CEG was to have something bespoke because it's been a few price controls that Ofgem has looked at potentially introducing a short interruptions framework and certainly the push that we were getting and our thinking was, as Basil says, that you reduce the longer interruptions. People have a short memory, they forget about those and it's the short interruptions that become top of the agenda and we wanted to get ahead of that curve.

Basil Scarsella - UKPN

But again, we're proposing to reduce short term interruptions by 10% but we've also introduced our compensation scheme for those customers that have too many short-term interruptions.

Chris Watts – S&C Electric

Yeah, thanks Basil, James - I think that's a real step forward, so yeah, we really welcome that.

Steve McMahon - Ofgem

Yeah, thanks, Chris. Ben, I'll come to you next, we've got another question just from the Ofgem side.

Ben Burke-Davies – Ofgem

Yeah, it's just on the issue of local area energy planning and the kind of issue about not leaving people behind. You've set out a three-tiered approach for working with the 127 local authorities but in your more detailed tier – the third tier - you're setting out a capacity of working with 10 local authorities in detail. I just wondered in terms of the scope of what you're setting out does that then mean there's a danger for anyone who's living in other local authorities that effectively the ability to deliver an effective transition is kind of going to be slower and that those people in those areas will get left behind?

Sul Alli - UKPN

Ben, the reality is that each local authority is going at the speed that they deem appropriate based on their context today, right? Our job is to make sure that those that are advanced, that have made progress, that we're supporting them, and if they're ready to be supported at Tier 3 - which is quite in depth - that we'll do so, but the key thing is that we can then take those learnings, take those experiences and then disseminate that to the other local authorities that may not be mature enough to get to Tier 3, but to help them get there faster. You know we are - you know local authorities and regional authorities are in the driving seat. We're supporting them as part of a broader coalition, but we also see a role for us to disseminate best practice and sharing, and that's what we will do.

For those local authorities that are advanced and there are at Tier 3, we will make sure that the insights, knowledge, the approaches have taken, we will share as part of our interactions with others at Tier 2 or Tier 1 and we think that's a reasonably practicable approach.

Steve McMahon - Ofgem

Yeah, OK. There's not that many additional questions coming in. There's a few that probably linked back to the theme in the first session, so it may be that we just we just revert back to those, but if I could just follow up on - going back to the issue on vulnerability and fuel poverty support - can you just explain how the services that are proposed in your ED2 plan build on those that are currently delivered in ED1 and how the different elements, so when you look at the numbers that are going to be directly supported, I think you're 200,000–300,000 through partnerships and I think 800,000 on top of that with information - how do these things actually interlink and overlap?

So how do you drive these things all in the same direction?

Sul Alli - UKPN – UKPN

Thanks Steve. So, when we talk to customers about what we do for PSR registered customers, what the scope of our services are today, it was broad support for us to put the things in the plan that we have done and particularly when there was an understanding of the benefits they could deliver on the cost. So, what we've said is – look, today in ED1 we already provide an element of these services but for ED2 we're going to turbocharge it.

We're going to be increasing our ambition for the amount of people that we provide that in depth, personalised support to working with trusted partners. But we recognise that in a region that instead of just UK Power Networks doing it with the third sector or community energy groups, there are other utilities and other organisations that may also be doing similar activities, so we felt that it made sense to join up on a more regional basis across different organisations to share our data and to basically share resources and be more targeted and specific in terms of what we do to have a bigger regional impact.

So there's things that we're going to drive ourselves for the 200,000 customers that we're targeting, there's things that we're going to work with a broader coalition of organisations with a regional focus and then there are general interactions that customers have with us if they're registered on the PSR or they

might not be registered on the PSR, but through that interaction we may find that they are vulnerable and have some issues.

We're not going to waste those interactions. We think that there's an opportunity there in that dialogue to either signpost a customer to a support network or to information, which is where the 100,000 comes. You know, vulnerability is not a linear thing, right? It is complex and there are multiple interactions we have. What we try to do is to be very clear about what we're going to do in each of those segments so that we can be held to account for that performance.

Steve McMahon - Ofgem

OK thanks Sul, Jonathan do you want to come in?

Jonathan Brearley - Ofgem

So, thanks guys, just one last question. This is a pretty broad question, so I apologise.

As a regulator you have lots of big positive expectations from price controls and we've outlined some of those today but you also have a lot of scenarios you're worried about and one scenario I am worried about is a world where either through the baseline or in the uncertainty mechanisms, we give you a whole pile of funding for investments and we end up with customers who are waiting for connections or who are delayed, and somehow, through our incentive system that isn't picked up. Now, you guys have answered the question and how - in a sense, how we're going to measure that by focusing on the customer satisfaction levels that you're expecting.

Can you expand? There's a lot of weight on that, a lot of weight on that one metric, giving us a reasonable indication of how your customers really feel.

So, it's a question for all of us actually. What's the best way in which we'll gather that evidence, and we can look at it to make sure it genuinely represents what customers feel rather than just represents the feedback you get from the ones who are most active and most engaged and quite possibly not necessarily those who are least satisfied.

Basil Scarsella - UKPN

But importantly, Jonathan, just keep in mind a customer becomes a customer for us when they have to deal with us.

It's not that there's the 8.3 million customers and we will survey randomly or you survey – Ofgem survey - randomly. It's only the customers that deal with us. In addition to that, and you know - if we just went along with what Ofgem has - what we are doing in ED1 with Ofgem, there a risk that in the scale of 8.3 million customers, EV customers or LCT customers for the sake of a better description actually are being left behind, are not satisfied with the service we provide, but we're still getting 90 plus percent customer satisfaction.

That is a risk. What we're saying is, let's make sure that we have a specific customer service survey for those customers that need to deal with us in order for them to either charge an EV or install a heat pump so that we are specific that we're not holding back progress, we're not blocking customers because you will get 50%, 40% or less customer satisfaction and when you start getting that, then that is a red flag for Ofgem and certainly for us to make sure that we need to do something about it.

I think what we're proposing in the plan cannot - from a customer perspective - cannot fail in that that there will be indicators, early indicators that suggest whether we're doing our job effectively and our job is to make sure that customers retain absolute choice as to how they use our network.

Jonathan Brearley - Ofgem

Right, thanks, Basil.

Steve McMahon - Ofgem

It might be that we just pick up on some of the questions. We're just checking to make sure those attendees are still here, but Basil, if I may, and building on Jonathan's - what assurances could you give us that this is the plan that you're going to deliver? So, I think in previous price controls we sometimes see where there's a plan that's submitted into the regulatory process but when the price control starts, we see a different plan and when you look at some of the industry speculation about the sort of premium that investors might be willing to pay for the UKPN business, they're clearly expecting you to outperform somewhere.

So how will you guarantee us or assure us that within the bounds of uncertainty that we've got, that this is the plan that you're going to deliver?

Jonathan Brearley - Ofgem

And Basil, if you want to give us an indication of whether that speculation's right that would be really helpful.

Basil Scarsella - UKPN

You should know better to believe media speculation, but I think we've gone public in that, that you know, we've seen transactions with other networks which have raised interest in our assets. There's no question about that, but it's important to point out our owners have not put our assets up for sale.

That doesn't stop possible investors saying - are you interested? So, in terms of - is there any credibility in the media? Yes, we've had lots of interest, but because we're a high performing business, therefore why wouldn't there be interest if the less performing assets at a significant price?

But it's a bit premature and it would be incorrect for me to say any more than that because there is no bid or offer for the owners to accept.

In relation, Steve, to your initial question about - is this the plan that's going to be delivered? Firstly, I think it's not a bad thing, sort of to look at our track record and we had, I think, 77 commitments we've made in ED1, and we think we're very close to actually delivering - we would deliver pretty much all of them. The only one that we're not sure is whether we're going to go 12 months without a lost time injury, and we're only days away, so I'd expect we would deliver all of our 77 commitments.

In addition to that, there's probably another 30 commitments that we made that we did not make in ED1 but have evolved because of our stakeholder engagement and market research, which we've also delivered, right, that should give you some comfort that whatever we do, what we say we're going to do and what we said we would deliver great service, great reliability at the lowest cost and that's what we've done in ED1. There's no reason to suggest that this management team will not deliver exactly all the ED2 commitments that we've committed. Plus, as actually, I think was indicated with Sul, anything else that comes up as we embark on the Net Zero transition, customers' expectation will change and we will respond to that, so I daresay will deliver the ED2 commitments plus a significant number of others that I'm sure will emerge over time and we will do that at the lowest possible cost.

Steve McMahon - Ofgem

OK, thanks Basil. I think there was a couple of questions that didn't get answered in the first session. I think flexibility is such an important theme and we had Rachel Fletcher just lined up before the break, but then we timed out. I think what Rachel's question was around - how will you UKPN encourage other DNOs to make best use of flexibility and work with them to achieve the consistency approaches, any interface required to allow a flexibility first approach. So not just a slogan. There'll be individual markets that you've

got at a DNO level, but we need to see this across the system. So how can you and the other DNOs drive that forward?

Basil Scarsella - UKPN

Yes, Steve - I think I'm going to pass it on to Sul in a minute but the first thing I would say to that is that we shouldn't – we are encouraging Ofgem to actually insist on UMs, uncertainty mechanisms, because of the uncertainty of the take up of low carbon technology as compared to give ex-ante allowances, because if you give ex-ante allowances and we adopt - the methodology is adopted, we've got the allowance, we'll spend it, we'll build assets - that's actually going to block the development of flexibility markets that I think are required. There's so much evidence to suggest that if it's - the networks are left to their own means under the traditional ex-ante allowance, flexibility will not thrive. You think about why flexibility has emerged and one of the reasons that's emerged then we look at - we've probably issued more flexibility contracts than anybody else because of the incentive regime that you've put in place.

Sul Alli - UKPN

I mean I think that's right it. In order to work together on this, we would suggest that the ODI that is being developed should be done as it is with industry participation because that's where you can get consistent performance measurement across the sector, and we are a competitive bunch when there are clear targets that we have to hit when we're compared to one another it tends to focus the mind. I think the second thing is sort of turbocharging the open networks initiative and collaboration, there's things that we can do there, and I think thirdly, I think moving to a more standardised set of kind of flexibility, products, evaluation frameworks. They're the kind of things that I think will help get a degree of consistency, but as Basil said, you know, if you've got a big plan with loads of totex, you sort of foreclose on a lot of that flexibility opportunity.

Steve McMahon - Ofgem

OK, thanks Sul. I'm conscious we are quickly running out of time. I think we've got a question in from Martin Crouch, 4D Economics.

I don't know if Martin's camera is enabled and he can post that question himself. It builds on Jonathan one about the importance of timely connections when the funding is already there. So hopefully Martin you'll be able to unmute yourself.

Martin Crouch – 4D Economics

So I was following up on Jonathan's question about tracking customers who are frustrated in connecting low carbon technologies and it was a specific question. You mentioned the survey you're planning to run for those customers specifically. Does that include not just the customers that get through the process, but those who find the process too difficult or expensive and drop out partway through? Because obviously that's what we're really trying to track and that could be business customers or household customers, generators or demand customers.

Basil Scarsella - UKPN

Martin, it will include all customers that contact us for a low carbon technology enquiry again for the lack of better description. So, it will include those customers that drop out because it's too expensive or too - we're not responsive for whatever reason.

Steve McMahon - Ofgem

OK, thanks, Martin. Jonathan, I'll probably hand back to you now, maybe just for some final closing up remarks.

Jonathan Brearley – Ofgem

Right. Well, first of all, could I say thank you to all of you for participating in today's Open Hearing, particularly to Basil and the UKPN team for fielding the many and varied questions that we had. There's a lot for Ofgem to think about in the next stage of this, just a few things that came out for me. So clearly big questions about past spend versus the bid within the plans. What really might be underpinning the economics particularly your outperformance expectations; the balance in which you're spending on different environmental outcomes and the balance of your versus customer spending on vulnerability. But there's also some encouraging and forward-looking aspects to your plan and that's something that I think we can all build on. First of all, you mentioned your very firm plans around DSO independence and the value you think that would bring. The overall structure of your spend, so keeping a tight baseline, but making sure we work together to use the uncertainty mechanisms if they're needed and also I do note that Roger from the Challenge Group described your vulnerability strategy as, I think, pretty good and pretty strong - which from the Challenge Group is pretty much as good a compliment as you'll ever get, so pat yourselves on the back for that. So, it just remains for me to say thanks for all your contributions here. For those who didn't get their questions answered in this, we will work with UKPN to find the best means to respond to those questions for you. As you know this has been recorded so we will be publishing transcripts on our website and this all feeds into the huge consideration that Ofgem will need to make over the coming weeks and months before we make our draft determinations in the summer. So once again, thanks for all attending and thanks for being part of the inaugural Open Hearing and I look forward to seeing many of you on the next one

Basil Scarsella - UKPN

Jonathan, can I - just one final quick comment. Firstly, to thank everybody that participated on today's hearing and then, I'll leave you with a very simple statement. We have the most utilised asset and yet our plan puts out - proposes the lowest increase in ex-ante allowance from actual ED1 spend and even when you add all of the uncertainty mechanisms which are clearly not certain to crystallise, then they increase from comparing ED2 to ED1 actual spend is still the lowest of anybody else. That should give you the confidence that the focus on customer service and certainly low cost is what we're on about.

Jonathan Brearley – Ofgem

Great thank you, Basil, and thanks everyone for the Open Hearing and thanks all of you - bye bye.

Unanswered Questions

1. **Christoph Grafe, Stakeholder Advisory Panel SSEN: You said you want to open up £100m of works to competition. How much of a saving do you realistically expect to feed through to customers at the end of that?**

This commitment will deliver greater value to customers from competition. By the nature of such processes, the savings that will be achieved are unknown until competitive providers have participated and revealed the efficiencies they can achieve. We will only deliver work through competitive providers where there are clear savings and the benefits of these savings will be passed on to customers through the usual price control mechanisms, with clear reporting on the value delivered as part of our annual commitments reporting. We encourage all DNOs to follow our lead so that all GB customers can benefit.

2. Catherine Cleary, Technical Advisor to the Greater Cambridge Partnership: What confidence or commitment can you give us that the much-needed specific load related reinforcements included in the final plan once approved, will actually be delivered and within what timeframe?

Subject to Ofgem approving in full the load related allowance as submitted in our business plan, our expectation is that the specific named projects in the business plan in the Cambridge area will be delivered within the ED2 period. We will need to work closely with local stakeholders to ensure that all necessary consents and permissions, such as planning, are granted within the timelines needed to deliver these projects. We look forward to working with the Greater Cambridge Partnership so that together we address any barriers that get in the way of these projects being delivered in full.

3. Matthew Mann, Enertechnos: Can you provide detail on what attention you are giving to innovative cabling as a solution to reducing losses and challenges such as distributing electricity generated offshore to areas where it is needed onshore?

Throughout RIIO-ED1, we have continued to identify new ways in which we can reduce losses on our network. UK Power Networks was the first DNO to establish a dedicated losses engineering capability at the beginning of the RIIO-ED1 (2016 – 2023) period to drive losses improvement projects. Generally speaking, the challenge of connecting offshore wind farms to the electricity network is a transmission challenge due to the capacity required. That being said, although not focussed solely on cable losses, our new Losses Strategy (which forms part of our RIIO-ED2 Business Plan) contains a clear set of actions to reduce losses by 10,460 MWh annually by the end of RIIO-ED2. Cumulatively, this equates to a reduction of 470,679 MWh over the lifetime of the assets that are being replaced. As part of Ofgem’s Strategic Innovation Fund (SIF) we are collaborating with National Grid Transmission (NGET) in the Discovery Phase as part of the SCADENT project which is looking at innovative cable technology. The project is developing an understanding on the impact and benefits of using High Temperature Superconductor cables.

4. Diandra Orodan, BUUK: What happened to the DCC fees? In your 2023/24 CDCM, the Pass-through Smart Meter Communication Licence Fees were £0. Are these costs allocated differently in RIIO-ED2?

The RIIO-ED2 Business Plan Data Tables and Sector Specific Methodology Decision treat DCC fees as Pass-through for the entire RIIO-ED2 period. The relevant values for 2023/24 were included within the base revenue used in the 2023/24 CDCM.

In RIIO-ED1, a pass-through costs allowance for the first six years was included in the base revenues, in addition there was a true up between allowance and actual cost for the first six years, recognised with a two-year lag. The final two years of RIIO-ED1 were set to zero with a review to be undertaken over the treatment for the final two years of RIIO-ED1; we have not pre-judged the outcome of any review. As such our CDCM values reflect the current regulatory position per the RIIO-ED1 licence.

5. Melania Tarquino, Surrey County Council: Can you please provide details on how your Local Area Energy Planning (LAEP) team will work in practice to support Local Authorities?

Our proposed LAEP team will work with all our regional planning authorities to ensure that network investment supports the delivery of their climate action plans where these are well justified. The key activities of the team will be:

- Annual engagement with all regional planning authorities to discuss their climate action plans and understand their progress.
- Assessment of their plans utilising our co-designed “Climate Action Plan” reference framework which will provide guidance on the planning outputs required to enable investment in enabling network infrastructure.
- Provision of a digital energy system planning portal including support / training to enable regional planning authorities to undertake their own energy system modelling and forecasting.
- Provision of research and networks/system data to support the development of local climate action plans.
- Commercial expertise to support both funding applications and, where appropriate, assessment in undertaking cost/benefit assessment; and
- Ad-hoc advisory support to answer questions regarding energy systems and electricity network assets.

6. Gemma Stanley, Piclo: Delivering full-scale flexibility and ensuring the UK remains at the forefront of global standards for DSO flexibility markets based on scalable solutions, open-API standards and DERMs integrations will require a huge amount of investment and development in all areas. How does your business plan deliver on this, whilst ensuring transparency and accountability to the market?

We agree with the sentiments expressed in this question and therefore have proposed a comprehensive strategy and set of investments for Ofgem’s consideration. We recognise the high and growing value of flexibility, both to our networks and to the efficient decarbonisation and operation of the wider energy system – that’s why we have the lowest increase in ex-ante totex of all DNOs. It is crucial that Ofgem assesses our digital investments within this overall context.

Our business plan and Appendix 18 - DSO Strategy set out how we will build on our experience in RIIO-ED1 to facilitate local flexibility markets at scale, including through re-organising our business and through significant investments in technology and external partnerships. We have committed to set up a legally separate DSO by April 2023, with oversight from an independent Supervisory Board, to provide the required clarity of focus, external transparency and to hold us to account. As detailed in our business plan, we will also be publishing more data and reports – including how we plan to use flexibility and on the dispatch decisions made in the control room.

7. Duncan McCombie, CEO YES Energy Solutions CIC: UKPN have mentioned a bill of £88 previously and a low ex-ante, but with the LCT delivery coming what is their realistic view of what bills will be at the end of the ED2 period following the addition of funding through UMs?

Please read our Business Plan (Figure 71, page 200) where we have been crystal clear on the bill impact range using Ofgem’s methodology to ensure meaningful comparisons with other DNOs. We are aware that not all DNOs have done so. For ease of reference this information has been copied below.

Figure 71: Comparison of average RII0-ED2 domestic customer bill with the average RII0-ED1 average bill
Ex-ante plan

£ (20/21 prices)	Average RII0-ED1	Ex-ante incl SCR (Average RII0-ED2)	% movement	Ex-ante excl SCR (Average RII0-ED2)	% movement
	£m	£m			
EPN	94	82	-12%	82	-13%
LPN	76	59	-22%	59	-23%
SPN	108	94	-13%	94	-13%
UKPN	93	79	-15%	79	-15%

High investment case

£ (20/21 prices)	Average RII0-ED1	High case incl SCR (Average RII0-ED2)	% movement	High case excl SCR (Average RII0-ED2)	% movement
	£m	£m			
EPN	94	87	-8%	85	-10%
LPN	76	62	-18%	61	-20%
SPN	108	99	-8%	98	-9%
UKPN	93	83	-10%	82	-12%