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National Grid Electricity Transmission [NGET] Independent User Group: Response to Consultation on frameworks for future systems and network regulation: enabling an energy system for the future

I write to you as the Chair of the National Grid Electricity Transmission [NGET] Independent User Group, an independent group of stakeholders who use the electricity transmission system now and who also represent the existing and future interests of those stakeholder constituencies.

The NGET Independent User Group (IUG)

As Ofgem will know, the Group was set up in July 2018 as part of the RIIO-2 business plan development process, to provide independent challenge and scrutiny to NGET on the business's performance and the quality of its engagement with the stakeholder groups that use the electricity transmission network, now and in the future. The essence of this was to ensure that NGET had undertaken robust stakeholder engagement in the development of the business plan and to ensure stakeholder scrutiny of the business plan itself.

Group membership is drawn from a wide range of different interests to reflect the perspectives and expertise of DNOs and distributed energy providers, developers and generators, the Electricity System Operator, energy suppliers, end consumers, direct customers, industrial and commercial users, innovation, new business models and the environment.

The IUG Framework & Process for Working

Following the submission of our report on the NGET RIIO-2 business plan to Ofgem at the end of 2019, NGET decided to continue with the Group on an enduring basis to help its journey to become a truly stakeholder-led business. As such, we re-defined our purpose as a User Group within three areas of focus as follows:

- 1. To scrutinise and challenge company periodic business plans:**
Scrutinise and challenge the development of company regulatory business plans, consistent with Ofgem requirements
- 2. To monitor, interrogate and enhance transparency of performance against commitments:**
 - a. Hold National Grid to account in delivering its business plan commitments by monitoring delivery and enhancing transparency
 - b. Act independently and publicly share its assessment as the voice of National Grid's stakeholders
 - c. Shaping National Grid as the pathway to Net Zero is developed and challenging how it responds to external change
- 3. To act as a critical friend for strategy, culture and processes in key areas:**
 - a. Provide input and challenge to National Grid's priorities and activities
 - b. Provide input and challenge to National Grid's stakeholder engagement and ensure that it's part of decision-making processes and plans

- c. Help National Grid to become more stakeholder-led, demonstrating fairness, legitimacy and consumer-focus throughout the business.

Subsequent to the above, therefore, we have continued to work closely to challenge and scrutinize NGET's performance and plans. A workplan is developed and agreed to each year, which focuses not only on monitoring NGET's progress with delivering their RII0-T2 commitments but also considers the critical areas they need to address in order to be a viable network for the future in a net zero society and also deliver value for the consumer, now and in the future.

To enable delivery of this workplan in line with the IUG's redefined role, we work to an agreed framework. This involves NGET providing us with a scope for each topic to be presented with clarity on the nature of the support required from the IUG, ahead of each meeting. This, in turn, enables us to produce a set of evaluation criteria setting out what good looks like, which helps to shape the pre-read content and the ensuing discussions. The discussions then either result in challenges where the topic related directly to business plan developments, further deep dives where it is related to monitoring performance on commitments or recommendations where we have acted as a critical friend. Challenges and recommendations are logged, and the NGET responses are tracked.

The IUG meetings are held on a bi-monthly basis and meetings are also held separately between the IUG Chair and specific senior leaders in NGET. Continuous assessments are undertaken to evaluate the relevance of the IUG, the value we bring to the process and to also ensure we remain independent.

IUG reflections on Ofgem's Consultation on Frameworks for Future Systems and Network Regulation

The IUG wishes to set out its reflections on the Ofgem consultation Future Systems Network Regulation with our focus, as always, on the implications for stakeholders and consumers.⁴²

In this response, we note the interactions in this consultation with the "**local institutions and governance**" and "**consumer interest framework**" consultations, but we have not gone into specific detail on related points, unless mentioned in the context of this consultation.

Outcomes Ofgem should consider in determining their approach

The IUG welcomes the much-needed focus on acceleration towards an affordable, secure, clean energy future and the role of regulation in making this outcome happen and in not acting as a barrier. These are, however, not the only outcomes that the regulator needs to consider in designing its framework. We believe that there are a number of gaps in Ofgem's approach which we would encourage the regulator to address.

1. There is a need for a focus on wider resilience

Based on consumer and wider stakeholder engagement, for example, we would encourage a focus not just on secure energy but on wider **resilience**. In practice, this means any approach the regulator adopts, should support, not just a reliable energy

⁴²~~Referred to re a separate consultation and the need for a common roadmap but nothing substantive in this doc.~~

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supply for customers and end consumers, including in the face of climate change, but also enable a focus on wider aspects such as workforce, investment, and supply chain and community resilience that support it. It also needs to focus on both delivering clean energy and supporting a **thriving environment**. That requires a focus not only on net zero but also biodiversity and preventing pollution. Solutions that deliver a net zero energy system at the cost of the natural environment (as has been demonstrated in the water sector) will not be politically acceptable to many consumers and could be counter-productive to tackling climate change. Rather than focus solely on affordability, Ofgem's approach should also support **equity and fairness**; fair for end consumers in terms of the costs that they pay; fair for investors in terms of the returns they receive and clarity and certainty and fair in terms of who pays across the generations and who benefits.

It should also support equity by supporting a thriving economy. Indeed, DESNZ's draft Strategy and Policy Statement for GB energy policy, puts more emphasis on resilience and suggests "*Ofgem has Strategic network plans which take a whole system approach, including early consideration of the deliverability, economic cost, and environmental and social impacts.*" These outcomes should be front and central to Ofgem's approach and build on its consumer interest framework, including also a focus on **service quality and standards**.

2. Be clear on the principles to drive decision-making

Similarly, it is also important that Ofgem is clear about the **principles or values** that will drive its decision-making. For example, we believe the regulator should be striving to deliver...

- a) **Best value** for consumers and wider society – not just 'lowest cost' of the energy network, which risks costing citizens and customers significantly more and missing opportunities to deliver whole system (not just energy system) value with regards to both short and longer-term benefits. A focus on broader environmental and social goals ensures opportunities are not missed.
- b) Help to build **public trust and confidence** in the energy sector and the regulator. If this is a guiding principle, it may, for example, lead to a stronger focus on consumer and wider stakeholder engagement in the process and encourage Ofgem to consider public perceptions of any approach and the over-arching narrative.
- c) **Deliverability** – given resources and the realistic view of the capabilities and cultures of Ofgem, the FSO, companies, and government decisions. In particular, we would query if the FSO is able to perform a planning role beyond transmission, given the need for local knowledge and community engagement. Consideration needs to be given of what can pragmatically be delivered in the time available.
- d) **Flexibility or adaptability** given the high degree of uncertainty for example.

Failure to consult on these guiding values and principles also risks the regulator being out of step with stakeholder views or misunderstanding perspectives.

3. Reducing Regulatory Complexity

The IUG welcomes a focus on reducing regulatory complexity and would like to see more detail on how this would work as the detail of the methodology develops. However, simplification should not be an end, in itself, or indeed necessarily a guiding principle if it jeopardizes important consumer and stakeholder outcomes. In practice, it has as much to do with the proportionality of Ofgem's approach and, linked to that, the

regulator reflecting on where it can have greater confidence in companies to deliver and could rely on other tools in the regulatory toolbox or move certain decisions outside of the regulatory framework. For example, there could be a role for independent challenge groups in assessing performance in areas such as workforce resilience, vulnerability, public purpose; or more of a negotiated settlement approach in some areas with appropriate regulatory oversight if needed.

4. On Competition

We have no preferred option for competition, but the choices made on process/route should be made within the parameters of the intended strategic outcomes and not in reflection of any ideological or theological assumptions. **Competition** should not be an end, in itself, but rather a means to deliver outcomes such as reliability of supply in a best value manner. Ofgem needs to consider carefully where it is applied and be honest about the genuine value it is delivering. With each decision or option proposed, Ofgem should be asking – *“does this option support or undermine the intended consumer outcomes or principles?”*.

5. A need for new analytical tools and approaches to manage uncertainty

To deliver this energy system fit for the future and to deal with uncertainty there is a need for **new analytical tools and approaches** – from social return on investment models to more adaptive planning. Standard cost benefit tools are not very good at analysing against uncertainty or best value.

6. Review the strengths and weaknesses of the RIIO-2 approach

Generally, we support a bold approach but with incremental reform starting with a review about what works and what does not with RIIO-2. In this way, there will be a clear understanding of the strengths and weaknesses of the current approach, where change is needed and where the current approach has value that should be retained. There are many strengths to the RIIO 2 approach, and it would be a shame to throw the baby out with the bathwater.

7. Clarification of roles and responsibilities

There is a need to clarify roles and responsibilities of different parties, reflecting a realistic understanding of their capabilities and cultures and also where the risks and **responsibilities** will ultimately lie following any changes. For example, there is a lack of clarity in the roles and responsibilities of different actors in the energy system on social issues including energy efficiency, affordability and supporting consumers in vulnerable situations. We are unclear what the implications are in each archetype as to who is ultimately responsible.

Ofgem should also itself seek clarity from UK Government, as Ofgem's existing vires could be interpreted as restrictive in this area. These areas are traditionally seen as less relevant for transmission companies but given NGET's central position in facilitating the low carbon transition, we think Ofgem can consider how NGET can fulfil this facilitating role to its fullest extent. The UK government is currently consulting on a Strategy and Policy Statement that could provide more clarity for Ofgem in this area. Although, as currently drafted, this gives Ofgem a steer to accelerate delivery of network infrastructure and consider these issues in the round, it does not explicitly refer to the potential social benefits that can be delivered by network companies.]

Commented [AA1]: This highlighted section is Stew Horne's input

8. Scale and Pace of Change Required

We are supportive of the need for a strong focus on investment. There is an urgency and also challenges around both the scale and pace of change required. We have some concerns about achieving pace and the risk of hiatus, given the lead-in time and necessary focus on transition planning, to the institutional establishment of the FSO. We welcomed the adaptive, proactive decision-making that resulted in the ASTI process and advise Ofgem to consider seriously and communicate how it will maintain that momentum. Ofgem, therefore, needs to be clear about how this pace can continue in the RII0 2 period and T3 planning period – stakeholders, society and consumers cannot wait until the FSO is fully established and in BaU phase, or indeed until T3 starts in 2026, for the start of any new regulatory approach.

9. Focus on Delivering Best Value Plans

Recent price controls have benefited from a falling cost of capital which has allowed for significant increases in investment while still delivering falling network costs on customer bills. As borrowing costs increase, investment becomes more expensive which, in turn, increases the tension between keeping bills as low as possible and the need for investment. While the transmission element of the bill is relatively small, affordability is still an important consideration. Focus should not simply be on the lowest cost business plans, but as noted above, it should also be on best value plans, taking into consideration wider social, environmental, and economic impacts and intergenerational considerations.

10. Focus on Whole System Planning

We welcome the focus on strategic, anticipatory, whole system planning and co-ordination of network investment and generation (with the intention to be adaptive). This should provide greater value for consumers and for industry, stakeholders, including communities and regions. The final framework will need to better highlight, enable and reward greater whole system, cross-sectoral collaboration and optimisation to deliver resilient, reliable and safe energy networks that support a thriving economy, communities and environment. This should be reflected in strategic planning, design and performance incentives.

11. Clarity on the meaning of “Whole System”

The Foreword refers to Ofgem plans to consult on an expansion of the current Strategic Network Plan to cover gas and hydrogen as well as electricity. We support this in the interests of whole-system outcomes and value for consumers.

Ofgem, however, needs to be clearer about what it means by “whole system” i.e., what is its role, if it has one, outside the regulated energy vectors and what is its view on who should pay for key transmission infrastructure that will support stakeholders and businesses in non-energy vectors on the path to net zero, for example, local transport or construction? In this respect, and subject to clarity on scope and bill impacts, it would be good to see Ofgem build in strong requirements and incentives for licensees to collaborate meaningfully with DNOs and in the context of ED2 planning.

12. Critical role of stakeholder engagement and reflecting their needs

There is a key issue throughout, on the role of stakeholder engagement. Given the move towards system planning, much more thought needs to be given to how

stakeholder engagement will have a strong enough weight in Ofgem's decision-making. Stakeholders will be critical to system planning alignment and to overall centralised strategic planning. However, this would then place the responsibilities for effective stakeholder engagement on the FSO and not the network companies/licensees, and thus also the likelihood of absolving companies from taking ownership of their own stakeholders with a danger of losing stakeholder buy in. The licensees, however, will still have to engage with their stakeholders on detailed business planning, priorities, delivery and desired outcomes. There is a major gap here that needs to be worked out and considered in the work on stakeholder engagement in the development of the final framework(s). Ofgem would also need to consider how the system planning approach will feed through (and vice versa) to the needs and priorities of impacted communities. The centralised planning approach, which we support, does then, in our view, bring about a clear, unintended risk of a top-down approach to stakeholder engagement which could bypass the importance of listening to, and co-creating solutions with stakeholders at regional and local level directly with licensees and on the delivery and outcomes achieved.

A framework that reflects stakeholder needs and priorities is, in transmission, essential for achieving downstream consumer value – this is missing from para 2.40.

Generally, while we recognise Ofgem has asked a question about the Consumer Voice in regulation (which we will address later), we are surprised at the paucity of references to stakeholders overall in the consultation. Any whole system, future focused and value for money approach will only work if the right stakeholders are identified and if networks and Ofgem enable the clear articulation of their priorities and needs from the outset. There also needs to be an understanding of the different stakeholder trade-offs that may need to be made in the interests of securing the strategic outcomes for the energy future.

13. Variation in devolved nations net zero targets

We welcome the recognition of variation in devolved nations net zero targets and we expect to see these taken account of in the final methodology.

14. Incorporation of Regional Variation

While we appreciate there is a separate consultation on local systems' governance, this document is sparse on the incorporation of regional variation which will become increasingly important. We would like to know whether this would be left to the FSO. bearing in mind network companies know their stakeholders best? Furthermore, what is the role of regulation and will the regulatory framework allow for or address this?

15. Calculation of Demand

There isn't much detail on how demand will be calculated. RIIO 2 planning was problematic here. An attempt at a Common Scenario ended with differing network forecasts (including regional variations). Notwithstanding our concerns about the timing of its establishment, it makes sense for this to sit with the FSO. As Ofgem recognises, this is a significant challenge for the FSO. However, much work will be needed to get to the point of demand forecasts (and on supply, the pace and role of technologies like storage, locally determined demand) that all licensees and their stakeholders can sign up to. Not much has been detailed in this document about how this will work. In addition to that, clarity would be needed on how consumer behaviour and engagement would be addressed and factored in.

16. Need for a clear set of assumptions on how to calculate efficient costs and measure asset health

RIIO 2 planning was dogged by differing interpretations on the information required to calculate efficient costs and also measure asset health. There is a need for a clear set of common, agreed assumptions so that T3 can start at pace. Ofgem says system planning will reduce information asymmetry. We are, however, not clear on how it will, within the cost assessments, for example, so an agreed way forward with licensees is essential.

We would like to see Ofgem collaborate with the licensees to determine and agree the right work that needs to be done as the key focus and only then, assess the cost efficiencies of the case that has been made. We need to see how agreement and clarity will be reached on the areas of no-regrets investment that are needed for system resilience in the face of asset health, climate change and geopolitical drivers. On asset health, therefore, stakeholders will expect to see an evolved approach that goes beyond the essential engineering components to fully address asset resilience and adaptation to climate change.

17. Clarity on the method for determining the T3 baseline

Generally, the RIIO 2 business planning process was characterised, from our perspective, by differing assessments of RIIO 1 performance that appeared to not have been reconciled and agreed at the start of the monitoring process. RIIO 2 performance monitoring is already underway – Is there an agreed view between licensees and Ofgem on the performance framework and measurement? Stakeholders will expect to see clarity on the method for determining the T3 baseline.

18. Feedback on the three Archetypes

We welcome the “Archetype” and “building blocks” approach as a good combination of keeping the process simple where it can be, utilising existing RIIO mechanisms (maintaining certainty and stability) and then embracing more progressive system coordination in a targeted approach, which is tailored to the specific network. This should bring value for consumers and stakeholders.

In terms of the three archetypes and, in response to para 3.4 we believe that question 1 also needs to add “**What needs to be done (the how) and why.**” This is because, as we move towards a more whole system from of regulation, the range of investment options will become wider. We also believe that question 2 needs to also emphasise the importance of effective delivery over and above efficient costs only – to reflect the enhanced focus in the FSNR on energy future outcomes.

- **Archetype 1 (Plan and Deliver)** – see above comments on potential misalignment of planning and TO stakeholder interest. Also, this model relies on “a series of national and regional strategic plans which are turned into detailed description of network needs.” How do you identify and agree “deliverability?”.
- **Archetype 2 (evolution of incentive regulation)** – We welcome simplification where possible and proportionate but only provided there are no unintended consequences for achieving strategic outcomes. In addition to

effective financial incentives, Ofgem should consider how it can strengthen the effectiveness of reputational incentives.

- **Archetype 3 (ex post monitoring regime)** – This seems a backward step from the stakeholder-led process in RIIO 2.

19. Periodic Reviews

As we have mentioned above, dynamic pathways for investment are crucial and cannot wait for new institutional frameworks. In that context only, we support periodic reviews, as a principle, in the interests of certainty for stakeholders but only also in the context of an agreed longer-term pathway. We emphasise strongly the need for flexible and adaptive planning and space/resource for effective in-period reviews. Similarly, a whole new, streamlined process is needed for uncertainty mechanisms and reopeners.

20. The use of Consumer Interest Framework

We very much welcome proposals for arriving at next steps via impact assessment based on Ofgem's consumer interest framework. We suggest that the consumer interest framework needs to be clearer on the assessment of existing vrs future consumer interests.

21. Innovation must continue to play a key role

Ofgem's approach to innovation incentives is recognised by some stakeholders as best practice and as a global first, where an entire sector is incentivised to innovate where the outcomes of that activity can then be measured. However, innovation is a journey and the different price controls enable the regulator to iterate and further develop the approach. The next price control framework needs to continue to build upon the strong foundations created by the NIA, measurement and value and creating an environment of collaboration in innovation. For innovation to flourish at such a crucial time in our energy sectors history, there is a need to maintain continuity, consistency and flexibility. A continued focus on ensuring that innovation funded by customer money is shared and embedded into business as usual would also be welcome.

22. Net Zero Duty

At present, Ofgem has no explicit duty to deliver net zero (currently it has duties around sustainability and needs of future consumers). This could be amended through the provisions in a Strategy and Policy Statement from UK Government (which UK government is currently consulting on and as currently drafted makes explicit reference to delivery related to Net Zero) or through the amendment of Ofgem's duties via legislation. Doing so would empower Ofgem to better consider anticipatory needs of a low carbon grid and trade off the risk of future demand against the risk of stranded assets.]

Commented [AA2]: This highlighted section is Stew Horne's input

23. The "Consumer Voice"

Consumer engagement was a keystone for RIIO-2 which is largely accepted to having worked well with independent User Groups and Customer Engagement Group involvement having led to much improved business plans. While we hope this is unintended, consumers feel like an after-thought in this approach at a time when the need for public acceptance and support for the transition to net zero given the cost and disruption that will result, is more important than ever. It is not an exaggeration to say

that the transition to a best value net zero energy system will succeed or fail depending on public support.

Any consideration, therefore, of the “Consumer Voice” needs to have a greater focus on future consumers, as well as existing consumers, within period in terms of short-medium term affordability/fairness and intergenerational equity. This should be a key question in Ofgem’s ongoing engagement on the framework(s). Ofgem will need to be clearer to existing consumers about the consumer benefits in meeting long-range net zero targets.

There needs to be a wider commitment by Ofgem to stakeholder engagement, with the consumer voice strengthened by making the process mandatory and Ofgem outlining how it will visibly listen to stakeholder and consumer views. There may scope to do more cross-company engagement alongside company’s own approaches (as in the water sector but with more transparency and consumer representation), in particular, as part of the wider public dialogue needed on decarbonisation. Generally, we urge Ofgem to consider how other sectors embed the consumer voice into decision-making, not only in other regulated industries like water, aviation and rail but also in, for example, professional services regulation.

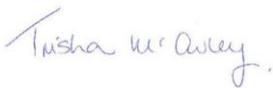
The standalone negotiated settlement approach, as seen in some other sectors, can result in a settlement with better-resourced and non-representative industry players only and, without significant care, could exacerbate exclusion of consumers, smaller industry players and emerging stakeholders from across the whole system.

Commented [ZM3]: I don't understand this

The key issue is the transparent, effective evidence-based integration of the stakeholder/consumer perspective in line with recognised and agreed good practice principles and clear demonstration in business plans of the rationale(s) for deviating from that. The RII02 model of enhanced engagement in transmission, comprising stakeholders representing all user constituencies meant that User Groups contain considerable breadth of expertise that can help to address the information asymmetry when properly resourced. They also provide an expert forum to address the tensions between the different user constituencies and the trade-offs that are then made. Although Ofgem carried out its own evaluation of that process, we would recommend understanding better the lessons that might be learnt by, for example, speaking collectively to the Chairs of the four Transmission Owner User Groups.

I hope that Ofgem finds this response useful and, of course, the NGET Independent User Group would be happy to discuss any aspect of it with Ofgem as it further develops this critical new approach to regulating for our energy future.

Yours Sincerely



Trisha McAuley OBE

Chair

National Grid Electricity Transmission Independent User Group