Stakeholder Engagement -
‘Critical Friends’
Stakeholder Panel

Panel 7, Session 1 –
London Power Networks

London
06 February 2014
Stakeholder Engagement – Critical Friends Stakeholder Panel

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1. Introduction

UK Power Networks is one of the UK’s largest electricity distribution businesses. We own, operate and manage three electricity distribution networks in the UK. Our licenced distribution networks are in the East of England, London and the South East.

It is our job to ensure the infrastructure that brings power to homes, businesses, hospitals, schools and other public services delivers reliable, safe and sustainable electricity.

Our responsibilities include:

- Maintaining the safety and reliability of the electricity networks
- Connecting new customer premises to electricity
- Extending and upgrading the electricity network to meet changing needs

Our three networks distribute electricity using more than 160,000km of underground cables and overhead lines, and more than 135,600 substations. Laid out, our networks would stretch several times around the circumference of the Earth.
From underground cables to overhead power lines, small rural substations to complex delivery networks in the capital, we are working on the electricity network 24 hours a day, 365 days a year, making sure the lights don’t go out. Safety and customer service are our top priorities; these are at the heart of everything we do.

| Number of connected customers | 8 million |
| Kilometres of overhead electricity lines | 65,300 |
| Kilometres of underground electricity cables | 98,000 |
| Revenue from the regulated business (2010) | £1.1 billion |
| Revenue from the unregulated business (2010) | £0.2 billion |
| Number of employees | 5,000 |
| Number of new connections per year | 100,000 |

Our vision is to become an organisation which is respected as one of the best performing companies in the sector.
We work to a vision defined by our core values. This vision drives us to ensure that we bring all of our 8 million customers a reliable service that delivers value, safety and innovation.

We have an important part to play in supporting the Government’s move to a low carbon economy. The energy industry is facing challenges to meet increasing demand and provide innovative technologies such as electric vehicles and heat pumps.

Our vision emphasises the aspiration for us to be a leading company in the electricity distribution sector. It recognises that this can only be achieved if our company objectives are aligned with the interests of all relevant stakeholders, including shareholders, staff, customers and regulators.

Stakeholder engagement is therefore a fundamental and crucial part of our business. It is very important that we are regularly talking to our customers and asking them what they think our priorities should be for the future.
2. What are ‘Critical Friends’ stakeholder engagement panels?

To ensure stakeholder feedback is fully captured and acted upon, we have designed our ‘Critical Friends’ stakeholder engagement panels, which are thematically grouped engagement sessions. The panels run alongside other forums and workshops that we organise as part of our business as usual engagement with our stakeholders.

The ‘Critical Friends’ stakeholder engagement panels have so far focused on ten key topics over three sessions:

- Customer satisfaction
- Social obligations
- Low carbon targets and transition
- Safety
- Low carbon technologies
- Environment
- Network reliability & availability
- Connections
- Corporate Social Responsibility (CSR)
- RIIO-ED1 Business Plan resubmission

In the context of the ‘Critical Friends’ panels, we are consulting with people from a wide range of organisations and representative bodies, including (but not limited to) major energy users, small business and domestic customers, developers, local authorities and parish councils, charities, environmental groups and organisations which help vulnerable people.

3. Session 1 of Panel 7: Event location and attendees

The session was held on 06 February 2014 at the address below:

City Marketing Suite,
Guildhall,
80 Basinghall Street,
London,
EC2V 5AR.
On the day, we were joined by the following stakeholders:

<table>
<thead>
<tr>
<th>Stakeholder</th>
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<td>Westminster City Council</td>
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<td>Davis Langdon</td>
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<td>Bank of England</td>
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<td>Baring Asset Manager</td>
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<td>Royal Bank of Scotland</td>
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4. Format of engagement

Session 1 of Panel 7 focused on London Power Networks (LPN).

After a welcome address, a presentation was given as summarised below. Participants were invited to ask questions at any time during presentations and as a result of these discussions were held by the group as a whole as issues were probed further.

Participants were also encouraged to raise any additional issues which were of interest to them.

The following ground rules were established:

- Avoid assigning intentions, beliefs, or motives to others (ask others questions instead of stating untested assumptions about them)
- Honour each party’s right to “pass” if he or she is not ready or willing to speak
- Allow others to express their opinions completely
- Make sure that the opportunities for input are evenly distributed
- Respect all confidentiality or anonymity requests that the group has agreed to honour
- Adopt a solutions-oriented approach
- Stay focused on the issue that is the subject of the agreement

Feedback forms were provided to the stakeholders inviting them to answer a number of questions about the event and the RIIO-ED1 Business Plan resubmission. The results are summarised in Section 7.
5. Objectives and key questions

The panel focused on the following issues:

- Key messages in the Business Plan and Ofgem's assessment
- Proposed changes to the Business Plan

Stakeholders were invited to provide feedback on the issues raised during the event and the below sections provide a summary of this feedback.

6. Speakers and topics

Below we briefly summarise the opening statements by each speaker.

Welcome from the Chairman
Gareth Spinner, Noveus

The independent chairman for the LPN panels, Gareth Spinner, opened the session by welcoming the stakeholders and thanking them for their support of UK Power Networks’ stakeholder engagement activities.

Proposed changes to the Business Plan 2015-23
Ben Wilson, Director of Strategy & Regulation and Chief Financial Officer

Ben began the session by providing an overview of three key areas in the original plan: commitments / outputs, revenue package, and investment plan. He then spoke about the 77 measurable outputs in the original Business Plan that were identified through stakeholder engagement sessions. Particular reference was made to some of the outputs in the areas of Customer Services, Safety and Environment, Reliability and Availability, and Connections.

- Ben spoke about UK Power Networks’ current Customer Service satisfaction scores and how they compare well across industries, but when compared against other Distribution Network Operators there are improvements still to be made.

- For Safety and Environment, Ben mentioned that the Lost Time Incident rate is getting better and that there is a strong focus within UK Power Networks on public safety.
With regards to Reliability, Ben highlighted that the London distribution network is the most reliable in the country, but that when compared to networks in other world cities its reliability can be improved. He mentioned the commitment to improve the London network reliability by 10% and how the original Business Plan included investment in network reinforcement.

For Connections, Ben highlighted how for small-scale connections requests the main issue relates to the time to quote and that UK Power Networks has made a specific commitment for this in the Business Plan. He also mentioned that for larger connections projects, the key issue for stakeholders is customer service and that there is a commitment in place to have account managers for these projects.

Ben spoke about investment ahead of need for the network and that regulation doesn’t currently allow for this to be done. UK Power Networks is engaging with the Treasury and Greater London Authority on this issue and if the regulation changes then UK Power Networks will consider undertaking this type of investment.

Ben then highlighted the main differences between the costs in the previous regulatory period (DPCR5) and those in the RIIO-ED1 Business Plan (2015-23). These were:

- Increased investment for load
- Increased asset replacement
- Network operating costs (that are lower as a result of more efficient practices)
- Non-operational CAPEX (for example, back office and call centre costs, which are slightly lower).

Ben then went on to compare UK Power Networks’ original Business Plan for the RIIO-ED1 period to the business plans submitted by Western Power Distribution (WPD) and Northern Powergrid (NPG).

- WPD is broadly similar in size to UK Power Networks. In the original Business Plan, UK Power Networks proposed to invest double the amount in the network than WPD proposed. This was driven by regional growth forecasts. For other costs included in the business plan, UK Power Networks’ were generally lower.
- NPG is approximately half the size of UK Power Networks and the costs in different areas of its business plan were generally half of those in the original UK Power Networks’ Business Plan.

Ben mentioned that in the original Business Plan UK Power Networks included 250 network reinforcement schemes, whereas some DNOs have very low numbers of these types of schemes (less than a dozen). This highlights the growth challenge in the network region that UK Power Networks faces.
Ben then spoke about the timeline for the resubmission of the Business Plan. The date for the resubmission is 17 March after which, following meetings with Ofgem, the final decision on whether it is approved will be made by Ofgem in July 2014. If the resubmitted Business Plan is not accepted by Ofgem, then they will set the price path and cost allowances. If this is the case then there will be a negotiation until November 2014.

Ofgem’s assessment of UK Power Networks’ original Business Plan for the London network was then discussed. The key areas which Ofgem wanted UK Power Networks to reconsider were the outputs related to the load and health indices of the assets. The evaluation of cost against efficiency in Ofgem’s modelling was discussed, which Ofgem has assessed as being 13.8% above its benchmark. Ofgem assessed the original Business Plan as including a higher volume of work than they believed was necessary. UK Power Networks considers that one of the reasons for this difference with Ofgem’s estimations is that it uses a more aggressive definition for classifying health indices for assets than other network operators.

Ben then summarised the changes being proposed in the resubmitted Business Plan.

- In the resubmitted plan, UK Power Networks proposes to provide more evidence for many parts of its original Business Plan.
- It will also submit papers to justify individual reinforcement schemes for load related expenditure of which UK Power Networks has significantly more than other DNOs.
- UK Power Networks also intends to reinforce to Ofgem the potential effects of not investing in the network.
- There will be some reduction in the costs for civil engineering and the 77 commitments will remain the same in the resubmitted plan, although depending on Ofgem’s stance, these may consequently be re-evaluated with some changed or even discarded.
7. Key feedback and actions

- One stakeholder asked what the comparison is between the electricity load for UK Power Networks and WPD. Ben Wilson replied that it is probably significantly higher for UK Power Networks. Basil Scarsella (CEO) stated that UK Power Networks delivers 30% of UK’s electricity on three of the fourteen distribution networks in the UK and that our network is probably closer to its maximum load capacity.

- One stakeholder stated that more investment was required and that there was a need versus cost debate as more connection requests are made. Ben stated that through stakeholder engagement it was clear that stakeholders want more investment in the network, and that UK Power Networks will do as much as possible for this within the existing regulatory boundaries.

- One stakeholder asked whether there was some scope for investment ahead of need within the regulation. Ben stated that there is some scope, but if investment ahead of need was made and not used, then Ofgem would not provide UK Power Networks with a return for that investment. Basil Scarsella stated that when considering efficiency, Ofgem were of the opinion that UK Power Networks was investing too much in the network.

- One stakeholder asked about the difference in the age of assets when comparing UK Power Networks with those of other DNOs. Barry Hatton (Director of Asset Management) replied that the age of assets was similar, but the key issue was the condition of the assets. He stated that the pushback and challenge from Ofgem were surprising given the quality of the data submitted in the original Business Plan. He also stated that in some cases, Ofgem asked why our costs were lower than for other DNOs. Ofgem queried why there was a low number of assets with health indices 4 and 5. Barry stated that the DNOs have different definitions for the classifications used in the health indices and that UK Power Networks had a higher threshold for these than other DNOs.

- Gareth Spinner asked whether the Business Plan takes into account the wave of assets that were coming to the end of their life. UK Power Networks’ directors replied that considerable effort had been made with regards to asset risk and prioritisation and that UK Power Networks believes it has a world class asset modelling system. It was also stated that some assets are up to 80 years old.

- One stakeholder stated that it seemed that Ofgem’s stance with respect to investments was down to timing. He asked whether Ofgem had an interest in the cost benefit of long term
work. Ben stated that Ofgem did indeed have an interest in this, and that their modelling used a number of different methodologies – an engineering based bottom-up analysis, a cost benefit analysis, and a top-down regression analysis. UK Power Networks have asked Ofgem how growth is factored into the regression modelling.

- One stakeholder asked what Ofgem’s terms of reference were for stating that the cost was too high. Ben stated that Ofgem looked at the outputs and the volumes of work that were behind them. For individual projects they had conducted bottom-up and top-down analyses and there could be many metrics giving different information that contributed to this decision.

- One stakeholder asked whether UK Power Networks knew what the impact was on household costs of the work proposed in the Business Plan. Ben stated that there were no real cost increases and that these would be either consistent with those in the current regulatory period or lower. As such, there was no reason to reduce what was proposed in the original Business Plan.

- One stakeholder stated that the Greater London Authority had expressed concerns about the lack of investment ahead of need.

- One stakeholder asked how large infrastructure projects, such as Crossrail, were covered in the Business Plan. Mark Adolphus (Director of Connections) stated that the principle impact of these projects was related to diversions to provide the supply, but that the impact was low as the developer paid a significant amount of the costs.

- One stakeholder asked what other costs were included in the Business Plan: for example smart metering. Ben replied that for the smart meter roll-out there would be costs in three areas; IT, fees for data and interventions. Electricity suppliers will cover the costs of the hardware.

- Gareth Spinner asked what Ofgem’s observations were on deliverability of the Business Plan. Basil replied that the board reported annually to Ofgem on financial and operating issues. He stated that Ofgem did not question UK Power Networks’ capacity to deliver the work and that their decision on fast-tracking was made considering costs. He added that expected growth was different for different DNOs; for at least two of UK Power Networks’ three regions growth was expected to be very strong.

- One stakeholder asked how deliverable the innovation projects were. Ben replied that UK Power Networks had more innovation projects than other DNOs and that it had a good capacity for performing these as well as a good track record.
- One stakeholder asked whether UK Power Networks would like further stakeholder support for the justification of different parts of the Business Plan. Basil said that UK Power Networks would welcome input on business growth models and receiving independent assessments of growth forecasts would be useful.

- One stakeholder asked to what extent Ofgem adjusted their load related figures to account for the differences in the cost of living in different regions. Ben replied that this was not accounted for and that Ofgem mainly based their assessment decision on the volume of work rather than unit costs.

Basil added that the measurement of customer service was another area where regional factors had not been accounted for. People’s expectations in London were higher; meanwhile, the time to fix faults could be longer as a significant part of the network in London was underground.

- One stakeholder asked about identified critical assets and whether the Business Plan includes allowances related to new technology. Barry replied that some new technology is covered in the innovation strategy. He also stated that the Low Voltage network is a big part of the network performance in the London network.

- One stakeholder asked whether there was a CAPEX contingency allowance for extreme events, such as a terrorist attack. Basil and Ben replied that there were contingency allowances and those for critical national infrastructure, but that they were unaware of an allowance specifically for terrorism. For the power cuts over Christmas there was a relief allowance related to the reliability of the network as the storm was a national event, though other costs were not covered.

- One stakeholder asked how much decentralised energy featured in the Business Plan. Ben replied that it was possible that the Eastern network could become, at certain times in the year, a supplier to the National Grid. However, he added that even if a building was generating its own energy, UK Power Networks would still have to have network capacity in place to supply it as there could be times when there was no generation. Ben mentioned UK Power Networks’ Smarter Network Storage project in the Eastern network region.

- One stakeholder asked about the take-up of electric vehicles. Barry Hatton replied that there had not been much take-up to date, but that it was projected to be significant in the future and that this had to be factored into the modelling.

- One stakeholder asked what confidence UK Power Networks had that the resubmitted Business Plan would be approved by Ofgem. Ben Wilson replied that UK Power Networks
believed in its plan, although Ofgem could still challenge some elements of the resubmitted plan and that was a possibility that UK Power Networks had to consider.

The session was concluded by Basil Scarsella and Gareth Spinner who thanked the stakeholders for attending the event and for their continued support of UK Power Networks.
8. Your feedback

What were the strengths of the event? What did you find most useful or relevant and why?
- ‘Covering the position of others and not just UKPN; Seniority and knowledge of UKPN at the event.’
- ‘No real weakness; Everything was presented and delivered in a clear and concise manner.’
- ‘Open and honest presentation and explanation.’

What are the key messages you will take from the event?
- ‘We need to treat London differently and have to protect long term investment.’
- ‘Defending previous position and providing more supporting evidence.’
Which activities or issues relevant to UK Power Networks’ operations are of interest to you?
- ‘Reliability of supply.’
- ‘Resilience of the network – CAPEX works’

Are there any other comments you would like to make?
- ‘Would like to explore what opportunities UKPN & RBS have to share knowledge particularly in relation to things like customer service.’
- ‘Very useful event.’

9. Key contacts

For further information please contact us on stakeholder.engagement@ukpowernetworks.co.uk

To speak to our Stakeholder Engagement team, please contact James Hubbard on 07812 262509.

If you would like to invite a friend or colleague to contribute views, our consultation continues online* at http://www.ukpowernetworks.co.uk/internet/en/have-your-say/

*Registration is required.