

Written evidence submitted by ENWL (ECO0016)

1 Introduction

Electricity North West Limited is the North West's distribution network operation (DNO). As the DNO for the North West we are responsible for maintaining and upgrading £12bn of electricity infrastructure across the region including 13,000km of overhead power lines and more than 44,000km of underground electricity cables and much more. We deliver over 25 terawatt hours of electricity through our network which is relied upon by over 5 million people across an area of 12,500km² whilst also investing one million pounds per day to provide a reliable, affordable and sustainable network.

We recognise that we provide an essential service to the households and businesses of the North West and we are committed to delivering a high-quality service. Our area covers a diversity of landscape and communities from the Lake District to urban Manchester and all the cities, towns and villages in-between.

Our prices are some of the lowest in the country. Over the next five years, our part of bills will be approximately £123 a year – equivalent to just 30p a day. We pride ourselves on being an essential and trusted partner that everyone who lives and works in the North West relies on.

We welcome the Committee's inquiry on '*Economics of the energy sector*' focusing on examining how the structure of the energy sector might be reformed to encourage greater decarbonisation, keep prices affordable for customers and maintain a secure and reliable supply. We are pleased to take up the opportunity to respond to this given our role as the regional DNO for the North West including the part we play in enabling Net Zero and decarbonisation policies to be achieved. Below, we have summarised the key points for the Committee to consider.

Further detail on these points has been provided in our full response.

- For Electricity Distribution, ex-ante incentive-based regulation, as practised in GB, is one of the leading global approaches and should be maintained but adapted where necessary. We believe that network price controls are working well in ensuring low bills, meeting customers needs, delivering efficiency, and enabling the necessary investment.
- Net Zero is a massive opportunity for economic growth generating a substantial number of jobs and enhancing skills. Net zero and climate adaption also mean regulators need to take longer term views than just single price control periods at a time considering how all Duties are balanced. A public debate on the investment needs of both current and future customers is needed to ensure ongoing stability and appropriate investment along with public acceptability of bills.
- Network innovations and digitalisation are key drivers of economic benefit in the energy system and should continue to be enabled and further supported by regulators. Technology can deliver considerable benefits in optimising the network, with no action required from customers. As the most innovative and digital DNO we have a record of delivering such schemes for example CLASS, Smart Street and our Network Management System (NMS) which is the most advanced in Europe.

2 Questions

1. What should be the underlying principles of the UK energy market?

The underlying principles of the UK energy market should be to achieve a reliable, secure and affordable energy landscape which customers and consumers have trust in. It is in this context which we are a consumer focussed DNO for the North West delivering great customer service as well as leading levels of reliability with the most reliable network outside of London, and by investing in the electricity network to meet current and the future needs.

When considering future needs and the decarbonisation of the UK energy market, we support Net Zero delivery at the pace that is required. It is important that the UK energy market is supportive of this. As the regional DNO for the North West we are enabling Net Zero policies, leading by example in the decarbonisation of our own activities. For example, we have made a commitment to make our own operations Net Zero by 2038 in line with local targets set by Greater Manchester Combined Authority.

Decarbonisation and Net Zero will have bill implications and this needs to be carefully considered relating back to customer affordability of its delivery. We view that guiding how a best value Net Zero delivery is funded through energy bills is a matter for Government, whereas it is the role of Ofgem to implement Government's policy decisions. It is important in this context that Government should guide Ofgem as the sectors economic regulator to taking a long run view of societies Net Zero needs alongside providing guidance for ensuring intergenerational fairness for bill payers. This should also be balanced through guidance to ensure network financeability as we transition as an energy sector to Net Zero making the required investments in the energy system.

2. Can Government deliver radical reform in the UK energy market?

Radical reform of the wholesale and energy supply markets is needed, and we see the Review of Electricity Market Arrangements (REMA) as the key project acting as the vehicle for the reform. Constraints on the energy transmission network could heavily impact costs in future. We welcome Nick Winser's conclusions on speeding up connections and planning to enable more generation to be connected to the network as well as help reduce transmission network constraints. We agree that REMA represents a major review into the electricity market that can enhance energy security and cut costs of electricity for consumers in the long term.

This is in the context that the supplier market has caused substantial costs to consumers in the recent short term as a consequence of how these supplier failure costs are recovered. Ofgem looks to consumers to fund supplier failures where these are part of network charges in consumers bills. As a DNO, our costs are subject to robust regulatory scrutiny by our economic regulator Ofgem. The typical cost to domestic customers in 2022-23 for our (ENWL) part of the electricity bill was £123 – one of the lowest of any network operator. This included a £34 'pass-through' cost for supplier market failures known as Supplier of Last Resort (SoLR). Without the SoLR costs our part of a typical customer's electricity bill for 2022-23 was £89.

Consideration of any reforms, including potential radical reform, needs to focus on the wholesale and retail sectors. For Electricity Distribution, ex-ante incentive-based regulation, as practised in GB, is one of the leading global approaches and should be maintained but evolved where necessary to meet emerging need. We believe that network price controls are working well in delivering efficiency, value, stability and investment. Within this, there is a need to maintain focus on both current and future customers to ensure ongoing stability and appropriate investment. We note and welcome the recently launched NIC review into Electricity Distribution and its readiness for Net Zero

and we look forward to actively engaging with that review as it progresses through 2024 and into 2025.

By way of example of the delivery for consumers from the Electricity Distribution sector, the Interruptions Incentive Scheme (IIS) has seen the number of electricity supply interruptions and the average duration of interruptions experienced by customers more than halve over the time that it has operated (as shown in figure 1).

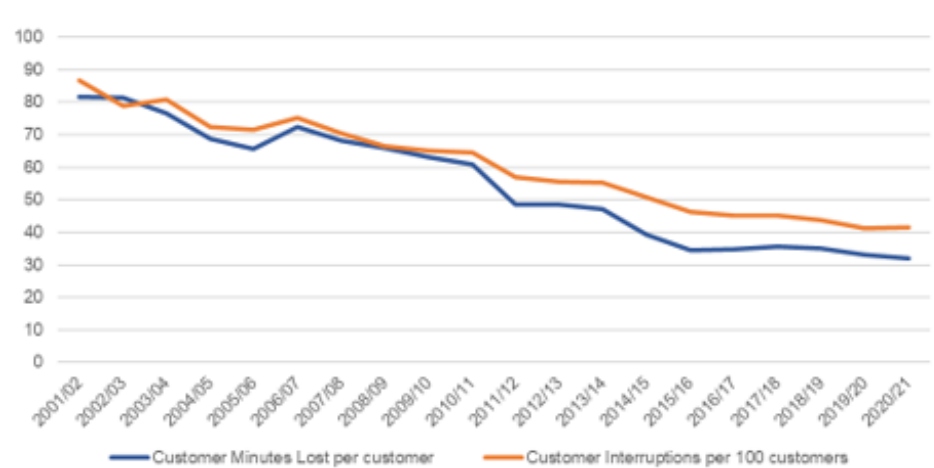


Figure 1: Networks' reported performance data for Customer Minutes Lost and Customer interruptions, as collated by Ofgem¹

Within this sector ENWL are a high performing network consistently delivering for our customers across the regulatory framework as assessed by Ofgem in its annual reporting process. It is important to recognise that providing excellent service to customers' needs to be a value for money decision and as such we have high performance with our part of the electricity bills remaining low.

We pride ourselves as being a regional DNO representing the North West. Place based representation is essential to ensure regulatory legitimacy. We know the North West, and as the only single licence area DNO group we hold a unique relationship with our regional stakeholders and the customers we serve. Our stakeholder engagement includes regular regional engagement events as well as topic-based engagement, enabling us to understand our stakeholders' views. It is essential to work closely with key stakeholders and industry to ensure investment, including in Net Zero and decarbonisation, is place-based. For example, Local Area Energy Plans (LAEPs) delivered by local authorities are crucial to unlocking and understanding requirements as a sub-regional level which we actively support in our area. This type of engagement became the foundation of our £2bn business plan, approved by Ofgem in 2022 to span 5 years 2023-2028.

3. Is the Review of Electricity Market Arrangements likely to deliver the necessary changes to the energy sector?

We agree that the review is needed. The scope of what REMA is looking at is the key areas for change, and the concerns about costs to consumers is legitimate. As referenced in our response to question 2, it is important to consider how consumer bills breakdown, with the part contributing to the Electricity Distribution sector being a small percentage of the overall cost, just 30p a day.

¹ DNO data: [Distribution Price Control Review \(DPCR\) 5](#) | [Ofgem, RIIO-1 Electricity Distribution Annual Report 2020-21](#) | [Ofgem](#)

4. What are the major benefits that the UK should be seeking to deliver from energy market reform?

The major benefits that reform should be seeking to deliver is the underlying principles of the energy market which we see as a reliable, secure and affordable energy landscape which customers and consumers have trust in.

Net Zero is and can be a massive opportunity for economic growth generating a substantial number of jobs and enhancing skills.

As the most digitally advanced distribution network in Europe with the strongest innovation track record, digitalisation and innovation should be a strategic priority to unlock these underlying principles and actively encouraged by Government through policy direction. Digitalisation and innovation will drive substantial customer and consumers benefits from new and better ways to meet Net Zero needs at lowest cost, whilst ensuring an affordable and reliable supply to consumers.

By way of example our bespoke network management system went live in 2021 and is more advanced than any other system used in Europe. We developed, deployed, and make active use of our Network Management System (NMS) and network connectivity model which is based on Schneider Electric's Advanced Distribution Management System (ADMS) which is the most advanced in the market providing us with a market-leading implementation of an operational digital twin. The network connectivity model in NMS provides end-to-end visibility and control from our Grid Supply Points (GSPs) on the national grid through to Low Voltage customer supply points in homes and businesses via Smart Meters. This is also enhanced through Industrial Internet of Things devices (IIoT) that provide status information feeding state of the art Artificial Intelligence/Machine Learning (AI/ML) services to predict and avoid power cuts and hazards improving outcomes for consumers.

Further to this as the most innovation DNO in terms of the level of project funding successfully secured through Ofgem innovation mechanisms, we retain a focus on innovation, continually looking for new solutions to meet tomorrow's challenges including Net Zero and decarbonisation goals. This includes utilising all available funding streams and collaborating with others, across a wide range of projects.

Our industry leading CLASS solution is now a business-as-usual operation, and we are participating in the ESO balancing services market having started life as an innovation project. Our CLASS system has been called 'exceptional' by an Ofgem judging panel and could save GB customers over £1bn if rolled out nationally, providing a proven low-carbon balancing option to National Grid. We have seen significant change in these markets, partly in response to a range of new entrants including ourselves. This has presented challenges to Ofgem as existing providers have disputed the legitimacy of our involvement. We remain firm that where new technologies and ways of working can reduce costs to customers then these need to be introduced.

Additionally, our Smart Street project rollout was the only innovation Ofgem supported as part of the 2019 Innovation rollout window. As an innovation project, Smart Street helps enable local capacity as customers move to low carbon technologies and can even save customers money on their bills.

5. What are the chief barriers to reform of the energy market and is the Government serious about addressing those?

Our observation is that Government is serious about addressing issues, as evidenced by REMA, the Winner review into Electricity Transmission as well as the National Infrastructure Commission (NIC)

review currently looking at the Electricity Distribution sector. Collectively, this represents a focus from Government on understanding if there are potential barriers and what is needed to effectively remove or reduce these. Connections reform is underway and is expected to speed up connections with a focus on the Transmission sector. It is important that the regulatory regime adapts to support the evolving connections regime allowing networks to invest in capacity early, consistent with removing barriers to low carbon investment for all sectors.

The Government's Transmission Acceleration Action Plan (TAAP) is also important to acknowledge, reducing planning as a barrier to timely Net Zero delivery. This will also unlock long-term energy security/reducing bills. The recognition that the current statutory framework and associated processes for necessary land rights and consents is welcome particularly at lower voltages such as Electricity Distribution. This should result in increased consistency between transmission and distribution networks and related improvements no less than those under the TAAP. We support the ENA 'Nine-Point Plan'² which sets out the areas of the current system that require reform.

It is important that emphasis is needed to enable development of capabilities, skills and develop the supply chains needed to deliver Net Zero transformation required, at pace. Net zero represents a substantial economic growth opportunity, creating jobs as well as global export potential for our capabilities. It is important that resources do not become a barrier to reform and that long term policies are in place to support the necessary evolving needs of the sector.

The importance and requirement to attract quality long-term capital from the private sector to enable Net Zero as the public policy goal. Sector economic regulation, a role undertaken by Ofgem, is pivotal in attracting the private sector investment required. Given the need to for investment to deliver Net Zero we should seek to avoid this becoming a barrier to reform and delivering the outcomes valued by consumers.

6. Is it possible to ensure that consumers are insulated from market failures in the energy sector?

Based on our experience we suggest consumers should be protected from harms as resulting from market failures. It is a key function of economic regulation done by Ofgem for our sector. Citizens Advice acts as an effective statutory consumer champion and the high levels of transparency and public scrutiny ensure issues generally surface quickly to be resolved. In dynamic competitive markets particularly, it is possible that market failures will emerge. Therefore, it's important failures are identified quickly, and proportionate steps are then put in place to protect consumers.

Our activities as a DNO are subject to Ofgem regulation as we are a regional monopoly. Ofgem does an effective job of protecting network consumers. As we look ahead to Net Zero and ensuring climate resilience, protecting consumers may become more challenging as obvious consumer drivers of low bills and high-quality services coupled with attracting investment are vital but will take more balancing. Ofgem will need to balance a range of ever more complex drivers and its new Duties as a result of the Net Zero transition.

We welcome Ofgem raising "investability" in the recent Sector Specific Methodology consultation for RIIO-3 which is important to ensure international investment can be attracted to GB to deliver Net Zero. The Ofgem approach to investability applied should not only be to equity, but to debt financing equally, as well as considering both actual company and notional company structures as a

² 'Our Common Sense Plan for Planning': Land Rights and Consents for electricity infrastructure, proposals for reform from Energy Networks Association December 2023
<https://www.energynetworks.org/publications/common-sense-planning-plan>

critical consideration. Ensuring investability requires a dual focus on ensuring financeability for debt by looking backward, and by ensuring attractiveness for new equity by looking forward. We look forward to working with Ofgem and other stakeholders on “investability” and how this concept is best implemented where alignment on delivering the new Net Zero and Growth duties alongside the existing duties of Ofgem are secured. Boldness is needed to ensure the unprecedented levels of investment required can be attracted to lead the way to Net Zero.

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