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Ofgem's Forward Work Programme – 2022/23

SSE Group ("SSE"/"We") welcomes the opportunity to respond to the Ofgem Forward Work Programme (FWP) for 2022/23. Please note that this response sets out the overall position of the SSE Group and no further responses will be sent.

About SSE Group

SSE is the leading generator of renewable electricity in the UK and Ireland, providing energy needed today while building a better world of energy for tomorrow. It develops and operates low-carbon infrastructure supporting the net zero transition, including onshore and offshore wind, hydro power, electricity transmission and distribution grids, efficient gas and energy from waste, alongside providing energy products and services for businesses.

UK listed, SSE is a major contributor to the UK and Ireland economies, employs over 10,000 people and is real Living Wage and Fair Tax Mark accredited.

Summary

Primarily our message in relation to Ofgem's activity over the next year is that:

- The challenges of the retail market will likely continue to underpin a significant amount of Ofgem's work over the course of this year. Whilst this is understandable, the transition to a net zero energy system will be a key factor in helping address affordability concerns.
- Ofgem must recognise the need for the timely decisions required to enable industry to deliver on the ambitions contained in the Energy White Paper by 2030 and facilitate the UK's 2050 net zero legal obligation.
- The FWP for 2022/23 must therefore be focused such that Ofgem can sufficiently resource and progress the enabling regulatory decisions that support investment in networks and low carbon infrastructure. Key activities for the coming year include the development of

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revenue support mechanisms for Large Scale Long Duration Electricity Storage; decisions to progress no regret transmission investment to maintain a pathway to net zero; and delivery of an agile ED2 framework which gives the certainty and flexibility required to meet evolving policy and customer needs.

- Ofgem should welcome a review of its statutory duties to include a specific net zero obligation. Such an addition would provide a formal and understandable framework within which Ofgem can take the necessary decisions, alongside the Government's Strategic Policy Statement (SPS).

Although there are a wide range of activities that are required to meet net zero, we believe that prioritising the above points will ensure that Ofgem and industry are best positioned to deliver the infrastructure required to meet carbon reduction targets. Attached to this response we provide further detail on our view on the activities proposed under Ofgem's Strategic Change Programmes.

We look forward to engaging further with Ofgem on these key work areas in the coming year and would welcome the opportunity to meet to discuss our views.

Yours sincerely,

Kieran Alderton
Group Regulation Analyst

ANNEX 1

- **Core Regulatory Functions**

- **Role of Ofgem:** Ofgem's role in the energy transition requires an updating of the statutory duties that provide the framework within which it operates and reaches policy decisions. The consultation signalled by BEIS for later this year on a review of the statutory duties of economic regulators, including their simplification and the addition of a specific net zero duty, is an opportunity to do so. More immediately, however, the priority is for the upcoming BEIS Strategy and Policy Statement (SPS) for Ofgem to include such an obligation, including how Ofgem reports on progress towards it. While we recognise that delays to publication of the SPS are outwith Ofgem's control, Ofgem should support and encourage BEIS for speedy publication – this will help provide Ofgem (and industry) with clarity regarding responsibilities to ensure there is sufficient pace and certainty in the regulatory framework.
- **Onshore Price Control Delivery:** Its critical that the RIIO-1 and 2 price controls are operated effectively to deliver investment to maintain a resilient network and protect consumers. The price control framework must be flexible and agile enough to respond to an ever-changing background need to develop the system and deliver net zero. . There is a substantive pipeline of reopener mechanisms across a wide range of areas from Large Onshore Transmission Investment (LOTI) to Pre-Construction. In addition, there is ongoing reporting and assessment of progress against Price Control Deliverables and Baseline Network Risk Outputs. We are concerned that the current reopener and reporting process is overly complex, burdensome and time-consuming for both Ofgem and TOs and in practice acts as a barrier to net zero delivery. We are committed to support Ofgem to develop improvements to deliver a more agile and efficient process.
- **RIIO-2 Needs Cases:** We believe that the evaluation of network solutions remains too heavily focused on cost efficiency ignoring the wider context of environmental and community sustainability. The current cost benefit analysis (CBA) model is focused on capital and constraint costs with little or no regard for net zero benefits or any other socioeconomic benefits. There is a need for a more holistic approach in order to demonstrate the need for investment projects which deliver benefit across this wider context. Separately, a more efficient and agile process is also required, and may be implemented for those projects identified via National Grid ESO 's Network Options Assessment (NOA) where the need, and appropriate solution, have largely been determined. We believe that to deliver critical NOA7

projects to meet Net Zero milestones, Ofgem can fast-track the ratification of need for all NOA7¹ north Scotland 'proceed' projects without TOs having to submit an Eligibility to Apply (ETA) letter, an Initial Needs Case (INC) and a Final Needs Case (FNC). We welcome the opportunity to work with Ofgem to improve this mechanism to deliver the investment required to deliver net zero.

- **Smart Meters:** We agree with BEIS that government and suppliers must prioritise the market-wide rollout of smart meters as soon as possible. Ofgem should continue to work with BEIS and industry to remain focused on the number of smart installations per rollout year in the post 2020 framework. We continue to believe there is a need for Ofgem and Government to acknowledge some of the industry-wide challenges being experienced by non-domestic suppliers and the subsequent impact these will have on attainment of targets. This includes (but is not limited to): limited availability of engineers to address complex metering set ups but increasing demand for this skill-set, technical challenges with single fuel gas SMETS2 installs, non-domestic customer attitudes to Smart in the context of the Covid-19 pandemic (i.e. less willing to allow installers into premises, staff working remotely, focus on business survival so limited capacity to accept an install etc.), increased potential for suppliers to gain customers of failed suppliers via the SoLR process.
 - **Market Monitoring/Enforcement:** Lessons should be learned from the failures in the retail market this year, and Ofgem should ensure that its market monitoring is robust enough to remain vigilant for companies looking to take advantage of market distortions and then cash out when they have done so. We go into this in further detail in the Future of Retail section with regard to suppliers.
 - **Heat Network Regulation:** We welcome the development of heat network regulation as we believe it will increase consumers' confidence in this technology and support the market growth along with providing consumer protections. Ofgem should ensure new standards are proportionate to avoid stifling the nascent market and Heat network regulation should be aligned with the broader policies on decarbonisation of heat.
- **Low Carbon Infrastructure**
 - **RIIO 3:** We are encouraged that Ofgem is considering early development of the RIIO-3 price control and support this approach in providing additional certainty to the industry. We seek a framework that is aligned with wider policy objectives. This includes long-term and holistic decision-making tools that support an output and incentive-based regime with a fair and legitimate level of return, and where

¹ <https://www.nationalgrideso.com/research-publications/network-options-assessment-noa>

biodiversity net gain and carbon emission reduction in accordance with science-based targets are rewarded. We continue to support the price control deliverable (PCD) process, which requires us to deliver our agreed-upon outputs, although we seek greater flexibility in PCDs going forward as we respond to the ever-changing requirements to meet the Net Zero transition.

- **CCUS:** SSE supports Ofgem's work to enabling new technologies that could lower the cost of the net zero transition for consumers in the future. If Ofgem is to be the economic regulator for CCUS networks, then it will be imperative that Ofgem has both the capacity and necessary resources required to deliver at speed in order to fulfil this role effectively. It is also critical that an appropriate and proportionate regulatory framework is developed to ensure that CCUS projects currently in Phase-2 are able to meet FID by Q2 2023.
- **Hydrogen:** SSE is supportive of Ofgem's proposal to identify and overcome existing regulatory barriers to hydrogen development. To that end we would welcome constructive engagement with Ofgem, Government and interested parties from across the energy sector to identify effective and proportionate changes to the existing regulatory framework to support the development of hydrogen technology in electricity generation.
- **Transmission competition:** Government and Ofgem must learn from failings in the retail market, which act as a timely and stark reminder of the need to carefully consider the applicability and consequences of competition in the transmission sector. Current proposals for transmission competition fail to adequately consider the risk of fragmentation of the GB transmission system, with potential risks and increased costs to consumers. It is also unclear how the introduction of competition will accelerate delivery of Net Zero targets. We therefore encourage Ofgem to rule out competition altogether; or as a minimum, rule it out for LOTI projects already in development, including those identified within the NGESO's 2021 and 2022 NOA. Doing so would provide stakeholders, including communities and the supply chain, certainty regarding the network investments required to ensure timely delivery to meet our 2030 and 2035 Net Zero targets.
- **EVs:** We believe that EV charging hubs are an essential component of GB's low carbon infrastructure. In order to advance this workstream, open access to data and sharing of quality data is required, in line with our comments below on data and digitalisation.
- **Electricity Transmission Network Planning Review (ETNPR):** We welcome the timing, intent and objectives of Ofgem's ETNPR. However, we strongly caution against any review, reform or transitional arrangements that could hinder unlocking known investment now and potentially delaying delivery of Net Zero. NOA7 sets

out £13.9bn investment over the next 15 years across GB and this, alongside the Holistic Network Design from the OTNR, should form the transitional centralised strategic plan. We would therefore welcome clearer articulation of the problem associated with existing planning processes such that the remedies proposed are both proportionate and centred on delivering additional benefits for consumers. In doing so, Ofgem must give careful consideration when evaluating changes to planning processes to not lose the benefits TOs provide through local coordinated delivery and stakeholder engagement (which ultimately determines whether a project or scheme is successful). The lack of a ‘problem statement’ associated with existing network planning processes limits the ability to target and prioritise actions to focus on those which would improve outcomes for consumers.

- **Offshore transmission infrastructure:** We strongly support the OTNR’s overarching goal of ensuring that future offshore wind connections are delivered with increased coordination while maintaining an appropriate balance of environmental, social, and economic costs. The Pathway to 2030 workstream supports this goal within existing regulatory and legal frameworks, while emphasising the importance of meeting targets by 2030. Ofgem should ensure that the following principles are considered with regard to holistic network design: Accelerate, not postpone, achievement of 2030 targets; allow for coordination and collaboration; and provide consumers, stakeholders and the supply chain with certainty. Failure to adopt the appropriate policy principles and considerations could result in irreversible societal harm by delaying Net Zero and preventing future system coordination.

- **Full-Chain Flexibility**

- **Large Scale Long-duration Electricity Storage (LLES):** Revenue uncertainty remains one of the most significant barriers to the development of LLES. Rapid development of the Cap and Floor regime would provide an appropriate support mechanism, and in our view could be done with relative ease and at speed given that no underlying changes to primary legislation would be required. Ofgem must not delay in making a decision on the de-risking mechanism to ensure that projects with planning approval such as our 1,500MW Coire Glas pumped hydro project, which would provide much needed grid flexibility, are not delayed.
- **Transmission Charging:** SSE is of the view that a fundamental review of Transmission Network Use of System (TNUoS) is required to address the damaging impact of the level, volatility and unpredictability of charges, which are creating a barrier to the development of renewable resources in Scotland and northern England. Having responded in detail to Ofgem’s welcome Call for

Evidence, SSE is pleased to note Ofgem's recent update, with a taskforce approach to enable a more holistic assessment of the issues. We look forward to participating in this process.

- **Wholesale Market Reforms:** We welcome Ofgem's activity to consider options for market design reforms, which SSE clearly sees as an area that currently is not fit for ensuring net zero can be met at least cost. It is important that existing assets are not closed prematurely to reduce capex costs, and we suggest a market-wide price floor for low carbon power to replace the CfD; in our opinion an efficient and least disruptive option. Ofgem should ensure that this review of options including the above is progressed.

- **Data and digitalisation**

- **Data Sharing:** We welcome Ofgem's commitment to working with industry in a collaborative approach to discuss parties' digital roles and responsibilities. We agree with Ofgem's commitment to ensuring network data safety and to ensuring standards are continuously improved against any possible threats to consumer data. However, it is critical that data sharing arrangements are agreed in line with improving the network and focused on areas where there is a real need. Potential roadblocks, such as the legal ability to share data, must be taken into account. Current legislation is designed to encourage customers to share their data with network operators, confident that it will be kept confidential unless they consent to it being shared. A clear and precise long-term legal framework on which both customers and industry participants can rely is necessary.
- **Best Practices:** Regarding data and digitalisation best practices being embedded into regulatory rules and principles, Ofgem should recognise that best practices may not be cross compatible between areas in the sector. With best practice predominantly focused at this time in networks, consideration must be taken when expanding these to generators, suppliers and others to ensure they focus on the costs and benefits as noted. This extends to increased analytical insights, where requests for data should be transparent and have clear purpose, due to the danger of requests for data for the sake of seeing data.

- **Energy System Governance**

- **Energy Code Governance:** Although there is merit in reviewing Energy Code arrangements to meet net zero, we disagree that the suggested direction in the recent Ofgem/BEIS consultation would be inherently better. Ofgem should instead ensure going forward with BEIS that it prioritises quick wins including but not limited to: the referencing of net zero delivery in code objectives; for code

administrators to produce a delivery plan; and increased commitment/involvements of appropriate Ofgem personnel at all stages of the code modification process. We believe that commercial and technical codes and standards are closely linked, and that a holistic approach to reform would be most effective. As a result, we welcome the commitment to review technical standards such as the Security and Quality of Supply Standard (SQSS) to ensure they keep up with the energy transition. This reinforces our belief that network safety, security, and reliability must be prioritised within any reforms, and that this must remain an overarching priority within the institutional framework and code evolutions that are implemented.

- **Future System Operator (FSO):** As outlined in our response to the joint Ofgem/BEIS consultation, we have concerns that the establishment of an FSO may be unjustified. Similar to views outlined in response to the Ofgem's ETNPR, it is critical that any assessment of whether change is required considers the benefits of the current model as well as the already well-underway transition to net zero. Industry and stakeholders must be clear on roles and responsibilities so that the FSO's responsibilities do not overlap with those of TOs (and Ofgem, BEIS, renewable developers etc). It is unclear how an FSO would better facilitate a holistic approach to network system operation and planning or the timeline investment in infrastructure. Ofgem should ensure that if an FSO is taken forward any additional roles such as system planning or advice provision is consulted on in detail with input from stakeholders to ensure they support rather than hinder from the delivery of net zero. For example, in relation to responsibility for system planning, if the intention is to replicate the TO function within the FSO, at best this will lead to duplications or parallel functions which will be expensive and inefficient for consumers. At worst, it will lead to responsibility being given to an organisation that is not best placed to be accountable for delivery. TOs are accountable to consumers, customers, and wider stakeholders, not the ESO. The TOs should therefore retain all responsibility for network planning and development. Instead, consideration should be given to implementing improvements to current arrangements such as improved utilisation of the NOA and expanding on TO/DNO/NGESO relationships.
- **Distribution System Operators (DSO):** We continue to believe that an integrated owner/operator model is the most appropriate way to facilitate the decarbonisation of heat and transport at maximum pace and minimal cost to consumers. Whilst we note Ofgem's intention to consider DSO governance over the course of 2022, we consider that the priority for Ofgem and industry in the near term must be to

focus their resources and efforts on the activities associated with the transition to net zero.

- **Future of Retail**

- **Renewables Obligation (RO):** Mutualisation has now been undertaken for four years in a row, and our internal modelling suggests it is almost certain to be triggered for Scheme Year 2021-22. This has cost the industry almost £0.5bn in recent years. We remain concerned about the prospect of further mutualisation in future years from existing market participants who may take advantage of the scheme design to support their cashflow during the current challenging period (noting that several suppliers that have historically paid late remain in the market), but also to prevent new entrants using the scheme to fund business models that were evidently unsustainable. We are strongly of the view that addressing the existing cashflow loophole from the Renewables Obligation Scheme and use of domestic credit balances, in conjunction with the work to update the operation of the price cap, remains Ofgem's most effective route to building energy market resilience and regaining consumer trust.
- **Financial Resilience:** We agree with Ofgem that there is a need to take action to strengthen the resilience of suppliers, and we continue to remain supportive of action being taken where this will improve standards across the energy market and result in a reduction in the likelihood or amount of costs being socialised across the rest of the market in the event of supplier failure. Whilst, as we set out in our response to Ofgem's action plan on financial resilience (17 January 2022), we recognise the need for Ofgem to take rapid action, we consider that this must be targeted to mitigate the risk of implementing solutions that do not address the problems. In particular, we would urge Ofgem to move towards a more risk-based monitoring regime that results in greater use of targeted 'with cause' oversight.
- **Microbusiness Consumers (SLC 7D):** We remain supportive of Ofgem's work to improve price transparency for customers as part of the MBC Review. In this context, and the transition of the market towards half hourly settlement, we consider that it is necessary for Ofgem to undertake a review of SLC 7D (the CMA's price transparency remedy). The non-domestic supply market is increasingly becoming more digitalised and, as the smart rollout continues at pace and suppliers begin preparations for half hourly settlement, this licence condition presents a possible barrier to future innovation on non-domestic product development. We would welcome further discussion with Ofgem on this issue.