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Dear Steven

I am writing on behalf of Scottish Government to set out our views on the draft ED2 business plans published by SPEN and SSEN Distribution.

The Scottish Government is focused on delivering a green recovery and Just Transition to net zero by 2045. Our 2020 Update to the Climate Change Plan (CCPu) set out the pathway to achieve this, taking into account the following **statutory** targets:

- 75% reduction in GHG emissions by 2030 compared with a 1990 baseline
- Net zero by 2045
- Ensure that, as far as is reasonably possible, by 2040 no household is in fuel poverty, and ensure that statutory fuel poverty targets are met
- Deliver at least 6 TWh of heat demand via heat networks by 2030.¹

These targets and, the policies that support them (Annex A), prioritise economic, social and environmental wellbeing and meeting them will keep Scotland on track to achieve net zero by 2045, as well as contribute to the wider GB pathway to net zero by 2050.

In the two years since publishing our CCPu, we have seen new challenges and pressures emerge across the energy industry and wider economy. We recognise that recent increases in wholesale market costs has put significant pressure on household finances and Ofgem's recent announcement to increase the price cap by around 54% could move a further 211,000 households into fuel poverty, and around 235,000 households who were already fuel poor into extreme fuel poverty.

In this context, we are pleased to see that both SPEN and SSEN business plans will provide reduction in energy bills of £12 per annum in the south of Scotland and £5.30 per annum for households in north Scotland. Accounting for additional allowances that could come through uncertainty mechanisms this should mean that ED2 can be delivered with no additional cost to consumers.

¹ [update-climate-change-plan-2018-2032-securing-green-recovery-path-net zero \(13\).pdf](#)

Decisions made under the next set of regulatory price controls (RIIO2) will **be critical for the Scottish 2030 statutory interim emission targets**. With that in mind, we would encourage Ofgem to reflect on the principles for the development of Scotland's gas and electricity networks that were co-developed by Scottish Government Ofgem, National Grid ESO, SPEN, SSEN, as it considers these plans.²

These principles recognise that we have a common purpose to deliver network infrastructure in Scotland, within the GB regulatory system, which can help Scotland to meet its wider policy targets, including those associated with climate change and fuel poverty.

Overall, we have been pleased to see that DNO business plans align with the Scottish Government Principles for development of gas and electricity networks across the following areas:

- Baseline Allowances
- Uncertainty Mechanisms
- Energy Scenarios
- Output Delivery Incentives and Consumer Value Propositions:

Our response calls for an agile approach to regulation that is supported by continued collaboration and engagement between industry, Ofgem and government throughout ED2.

We have also included some additional considerations on resilience, in light of the severe disruption experience by network customers through Storm Arwen.

We look forward to continuing to work with you and the rest of the networks industry as we focus on delivery in the years ahead. The Energy Networks Sector Leadership Group alongside our heat and transport coordination group and strategic working groups will provide the right forums to continue to progress shared outcomes, undertake necessary research as well as identifying and addressing barriers through the ED2 price control period.

Yours Sincerely,

Michael Rieley
Head of Electricity Networks and Regulation

² [Gas and electricity networks: development principles - gov.scot \(www.gov.scot\)](http://www.gov.scot)

Baseline Allowances

Scottish DNO's SPEN and SSEN have sought approval from Ofgem for baseline funding of £1.6bn and £1.4bn respectively. Both businesses have requested a higher level of investment than in the same timeframe under the last price control which aligns with the need to increase network capacity to meet our climate change targets

The current landscape of rising energy costs will undoubtedly put pressure on industry and regulators when assessing the need for new investments. As we have seen with the recent extreme weather events across GB however, the case for investment in a resilient net zero economy has arguably never been clearer.

It is not the place for the Scottish Government to take a position on the commercial or engineering justification for individual projects within the ED2 plans. While there will undoubtedly be room for improvement we would be extremely concerned to see cuts of a similar scale to RII0 T2 applied in the RII0 ED2 draft determinations.

With this in mind, it is important to acknowledge some of the unique elements of the Scottish distribution networks business plans resulting from the dispersed nature of the Scottish electricity system. For example, we are pleased to see SSEN's proposed plans for improving islands connectivity and resilience. This will help to reduce the significant impact of sub-sea cable outages and reliance on stand-by diesel generation – most recently experienced in due to the failure of the Skye – Harris circuit.

We would encourage Ofgem to ensure that proposals in this area will ensure that all customers including remote, rural and island customers are able to reflect on ED2 as a price control that has improved their access to and resilience of their electricity infrastructure.

Overall, the Scottish Government is supportive of SPEN and SSEN's proposed approach progressing some investment through baseline funding where there is sufficient certainty and we encourage Ofgem to ensure that this is supported by clearly defined and flexible Uncertainty Mechanism's from day one of ED2.

Uncertainty Mechanisms

Uncertainty Mechanisms (UM) will play an increasingly important role in balancing the risks for consumers as networks and industry continue to respond to policy and regulation that is evolving to address the challenges of the transition to net Zero. With this in mind, we have some concern that a final position on UM's has not yet been determined by Ofgem

We would encourage Ofgem to use the recent Green Recovery Mechanism as an important benchmark for agile regulation as it reaches a final position on this critical regulatory lever.

The need for uncertainty mechanisms is highlighted when considering the breadth of policy and regulatory development that the Scottish Government has undertaken since draft ED2 business plans were published:

- The consultative draft of the Scottish Government's Onshore Wind Policy Statement refresh was published in October 2021 and sought views on our ambition to secure an additional 8-12 GW of installed onshore wind capacity by 2030, how to tackle the

barriers to deployment, and how to secure maximum economic benefit from these developments.

- The Draft Hydrogen Action Plan was published on the 10 November 2021 and articulates the actions that will be taken over the next five years to support the development of a hydrogen economy to further our efforts to reduce greenhouse gas emissions from Scotland’s energy system while ensuring a just transition. For electricity networks, this includes a number of actions for electricity and gas networks, including a commitment from Scottish Government to work with electricity and gas network operators to realise system benefits of hydrogen.
- Our response to Scotland’s Just Transition Commission report, laid out details of our National Just Transition Framework. This includes a set of eight Just Transition Outcomes covering areas including: citizens, communities and place; a fair distribution of costs and benefits; and adaption and resilience
- The Heat in Buildings Strategy (HiB) was published on the 7th October 2021 following extensive stakeholder engagement³. This includes a strong focus on improving the energy efficiency of our buildings as well as scaling up the deployment of zero emissions heating systems so that over 1 million homes and the equivalent of 50,000 non-domestic buildings are heated by zero emission systems by 2030.
- The Crown Estate Scotland announced the results of its ScotWind leasing round on 17 January 2022. 17 projects have been selected out of a total of 74 applications, and have now been offered option agreements which reserve the rights to specific areas of seabed. The combined ambition of these projects would deliver 24.82GW of offshore wind power from the successful projects

Looking to 2023 more specifically, the Scottish Government “will introduce primary legislation, subject to consultation and to limits on devolved competence”. We envisage this legislation bringing in new legal requirements, which would be in force from 2025 onwards. This would require building owners to meet energy efficiency standards and to install zero emissions heating (ZEH) systems at specified ‘trigger points’ (such as when a building is sold or when a heating system requires replacement).

The HiB Strategy commits the Scottish Government to ‘engage with the UK Government ahead of introducing this legislation to secure agreement on changes that are necessary to the energy markets in reserved areas’, in recognition of the significant impact that the proposed regulations could have on current energy markets, as over 1m building owners would move to ZEH systems in the remainder of this decade – and be required to do so from 2025.

It is equally important to consider changes in the wider regulatory landscape. Ofgems decision to remove some of the up-front reinforcement charges for demand customers in 2023, while welcome, could have unintended consequences. In particular, for DNO business plans, this change could lead to higher than expected levels of connection requests.

The Scottish Government, led by Transport Scotland, is currently working with bus operators to achieve our ambition to “ensure that the majority of new buses purchased from 2024 are zero emission”. This will require those fleet operators, working with the relevant DNOs, to

³ [Heat in Buildings Strategy - achieving net zero emissions in Scotland's buildings - gov.scot \(www.gov.scot\)](https://www.gov.scot/resources/documents/2021/10/Heat_in_Buildings_Strategy_-_achieving_net_zero_emissions_in_Scotland's_buildings_-_gov.scot)

make investments in the infrastructure required to accommodate increased electricity demand – potentially ahead of the proposed 2023 implementation date.

We are also aware that a number of housing developers have struggled with the high network reinforcement costs associated with installing the heat pumps that will make a vital contribution to the Scottish Government target that all new homes are to use zero emission heating systems from 2024. There is a risk that developers may seek to move connection dates beyond 2023 in order to benefit from Ofgem’s proposed change.

We encourage Ofgem to work with DNO’s to review this scale of this risk, and to ensure that uncertainty mechanisms are able to respond to the expected volume of applications which may not have been anticipated in ED2 plans.

Energy Scenarios

The Scottish Government has worked closely with both SPEN and SSEN in the development of their respective Distribution Future Energy Scenarios (DFES) which underpin many of the assumptions used in the business plans.

We were pleased to see that the SSEN plan has adopted the consumer transformation scenario for the first two years of the price control. This is closest to the ambition laid out in the Update to the Climate Change Plan therefore supporting our ability to meet targets. SPEN have also adopted scenarios that are capable of meeting net-zero and broadly align with the Scottish Government’s ambition, as laid out in the update to the Climate Change Plan.

It is vital that DNO’s continue to work with devolved and local government through future iterations of DFES to ensure that these projections continue to capture the scale and pace of change required to achieve Net Zero.

For example, we are continuing to engage with SPEN and SSEN to ensure that they understand the importance of heat networks to remain compatible with the net zero pathway. We have requested specifically that future iterations of DFES account for further expected deployment of heat pumps and networks, for example identifying where there may be area based planning for multiple heat pump installations.

It is vital that we continue to build on this approach through future iterations of DFES to ensure that our networks remain capable of supporting Scotland’s net-zero transition

Output Delivery Incentives and Consumer Value Propositions

In addition to the proposed allowances and use of uncertainty mechanisms we recognise the potential of Output Delivery Incentives and Consumer Value Propositions as a means of delivering transformation in areas of the energy system that might not otherwise happen.

The Scottish Government has seen first-hand the benefits of DNO’s going above and beyond BAU to support local authorities in planning for net zero, ensuring that the network acts as an enabler for change:

- **Project PACE**, progressed by SPEN, has explored the important role the DNO can play in the planning and delivery of cost-effective public EV charging infrastructure by identifying optimal locations to install EV charging infrastructure. The project has

installed 173 chargers over 44 sites across North and South Lanarkshire and is currently forecasting between £1.3m-£2.6m in connection cost savings, representing a saving of between 50% and 66%.

- Further learnings have also been gained from the collaboration between SSEN and Transport Scotland on the ‘**Electric A9**’ project. By working collaboratively with Highland and Perth and Kinross councils to identify optimal siting locations for charge place hubs on the 273-mile route, costs were reduced significantly, and timelines accelerated.

Expanding this approach across all Local Authorities by providing LA’s with access to network planning resources and taking a network first approach to net-zero planning will require additional resource from both SPEN and SSEN. The Scottish Government is therefore supportive of the SSEN’s embedded whole system support service as well as SPEN’s proposals for ‘strategic optimisers’.

Combined these proposals will ensure that Local Authorities will have access to the much needed resource as they undertake net zero planning and will lead to better outcomes for communities and consumers as net-zero proposals around heat and transport will be more aligned with network capability, minimising the cost and increasing the pace of decarbonisation.

In this context, it is worth noting that the [The Heat in Buildings Strategy](#) (HBS) commits to having Local Heat and Energy Efficiency Strategies (LHEES) and accompanying Delivery Plans in place for all Local Authority areas by the end of 2023. The Scottish Government is working in partnership with COSLA to put LHEES on a statutory footing, with the intention to place a statutory duty on local authorities to develop Strategies and Delivery Plans in line with the 2023 commitment. The process of developing local Strategies and Delivery Plans will involve significant stakeholder engagement. We firmly believe that the DNOs will be critical to this, helping to ensure that they are able to fulfil their role as enablers for the development of LHEES in Scotland.

The Scottish Government Local Heat and Energy Efficiency Strategy (LHEES) aims to drive area-based planning and delivery of the heat transition, supporting achievement of statutory emissions reduction targets. The strategies are long-term plans for decarbonising heat in buildings and improving energy efficiency across an entire local authority area.

Resilience

We are aware that in just the last six months DNO’s have experienced some of the most challenging conditions for their networks in a generation. Widespread devastation caused by Storm Arwen led to disruption to almost 1 million customers including a small but significant proportion experiencing a disruption of up to 11 days. Storm Malik and Corrie subsequently resulted in over 450 High Voltage network faults, disconnecting 120,000 homes in the North of Scotland alone.

We await the outcome of BEIS and Ofgem’s separate post-incident reviews for Storm Arwen to understand where improvements could be made in future incidents. The Scottish Government will be contributing to both reviews and will carefully consider the findings to understand where improvements could be made.

The Scottish Government's own review into Storm Arwen identified six recommendations to take all the learning from this exceptional storm and ensure that our arrangements continue to evolve and strengthen for the future⁴.

It will be important to ensure that the SPEN and SSEN's proposals to improve resilience in ED2 are considered in light of findings from each of these reviews.

SPEN has recognised power outages as one of the highest customer priorities and has committed to provide customers with improved support and response before, during and after either planned or unplanned occurrences with an enhanced approach for their most vulnerable and at-risk customers

In addition their Consumer Value Proposition (CVP1) involves two major initiatives aimed at ensuring that vulnerable customers are not left behind in the energy system transition:

Funding technology to reduce energy demand for 40,000 of their most disadvantaged customers, with an average bill saving of £100 year and reducing emissions ; and
Increasing the uptake of smart meters across harder to reach customer groups

SSEN has committed to further scale up the level of automation on the network to reduce customer interruptions and restore supplies faster, investing £23.5m in automation to over 450 circuits. They aim to reduce the average frequency and duration of unplanned power cuts by 20% and improve network performance for at least 75% of customers that are deemed worst served, prioritising interventions based on frequency of interruptions and vulnerability levels

An additional Consumer Value Proposition would enable them to deliver Personal Resilience Plans (PRPs) for all new registrations on the priority services register – a system designed by Ofgem to help vulnerable energy customers. PRP's will also be proactively offered to their most vulnerable customers (more than 44,000), tailored in each case with clear actionable support and, in certain situations, provision of personal battery storage.

⁴ [Storm Arwen review - gov.scot \(www.gov.scot\)](http://www.gov.scot)

Annex A: Table of Scottish Targets and Policies

Statutory target	Legislation
Net Zero by 2045	Climate Change (Emissions Reduction Target) (Scotland) Act (2019) ⁵
75% reduction in GHG emissions by 2030 compared with a 1990 baseline	Climate Change (Emissions Reduction Target) (Scotland) Act (2019) ⁶
Ensure that, as far as is reasonably possible, by 2040 no household is in fuel poverty, and ensure that statutory fuel poverty targets are met.	Fuel Poverty (Targets, Definition and Strategy) (Scotland) Act 2019 ⁷
Deliver at least 6 TWh of heat demand via heat networks by 2030	Heat Networks (Scotland) Act 2021 ⁸

Non – Statutory Targets
Decarbonise almost all off-gas-grid properties, at least 1 million on gas grid domestic properties and at least 50,000 non domestic properties by 2030
Ensure that the equivalent of at least 50% of energy, across heat, transport and electricity comes from renewable sources by 2030
Remove the need for petrol and diesel cars and vans by 2030 + Reduce car kilometers by 20% by 2030
The Climate Change Plan Update lays out a pathway which includes a zero carbon electricity generation sector from 2029.
Remove the majority of diesel buses from public service by 2023
All new homes to use zero emission heating systems from 2024
At least 5 GW of hydrogen production capacity by 2030
All Local Authorities to develop a Local Heat and Energy Efficiency Strategy (LHEES) by 2023.

⁵ <https://www.legislation.gov.uk/asp/2019/15/enacted>

⁶ <https://www.legislation.gov.uk/asp/2019/15/enacted>

⁷ <https://www.legislation.gov.uk/asp/2019/10/enacted>

⁸ <https://beta.parliament.scot/bills/heat-networks-scotland-bill>