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Consultation

RIIO-ED2 Draft Determinations SPEN Annex	
Subject	**Details**
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The next electricity distribution price control (RIIO-ED2) will cover the five-year period to 31 March 2028. In December 2021 the Distribution Network Operators (DNOs) submitted their business plans to Ofgem setting out proposed expenditure for RIIO-ED2. We have now assessed these plans and this document, and others published alongside it, set out our Draft Determinations for DNO allowances under the RIIO-ED2 price control for consultation. Responses are sought to the questions posed in these documents by 25 August 2022. Following our consideration of these responses we will confirm our Final Determinations by December 2022.

The full suite of Draft Determinations documents outlines the scope, purpose and questions of the consultation and how you can get involved. Once the consultation is closed, we will consider all responses before confirming our Final Determinations. We want to be transparent in our consultations. We will publish the non-confidential responses we receive alongside a decision on next steps on our website at Ofgem.gov.uk/consultations. If you want your response – in whole or in part – to be

considered confidential, please tell us in your response and explain why. Please clearly mark the parts of your response that you consider to be confidential, and if possible, put the confidential material in separate appendices to your response.

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1. Introduction

Purpose of this document

1.1 This document sets out our Draft Determinations for the Electricity Distribution (ED) price control (RIIO-ED2) for the areas that are specific to SPEN. The RIIO-ED2 price control will cover the five-year period from 1 April 2023 to 31 March 2028. All figures are in 2020/21 prices except where otherwise stated.

1.2 The purpose of this document is to focus on those elements of our consultation position for the price control settlement which specifically affect SPEN's licence areas covering Scottish Power Distribution (SPD) and Scottish Power Manweb (SPMW).

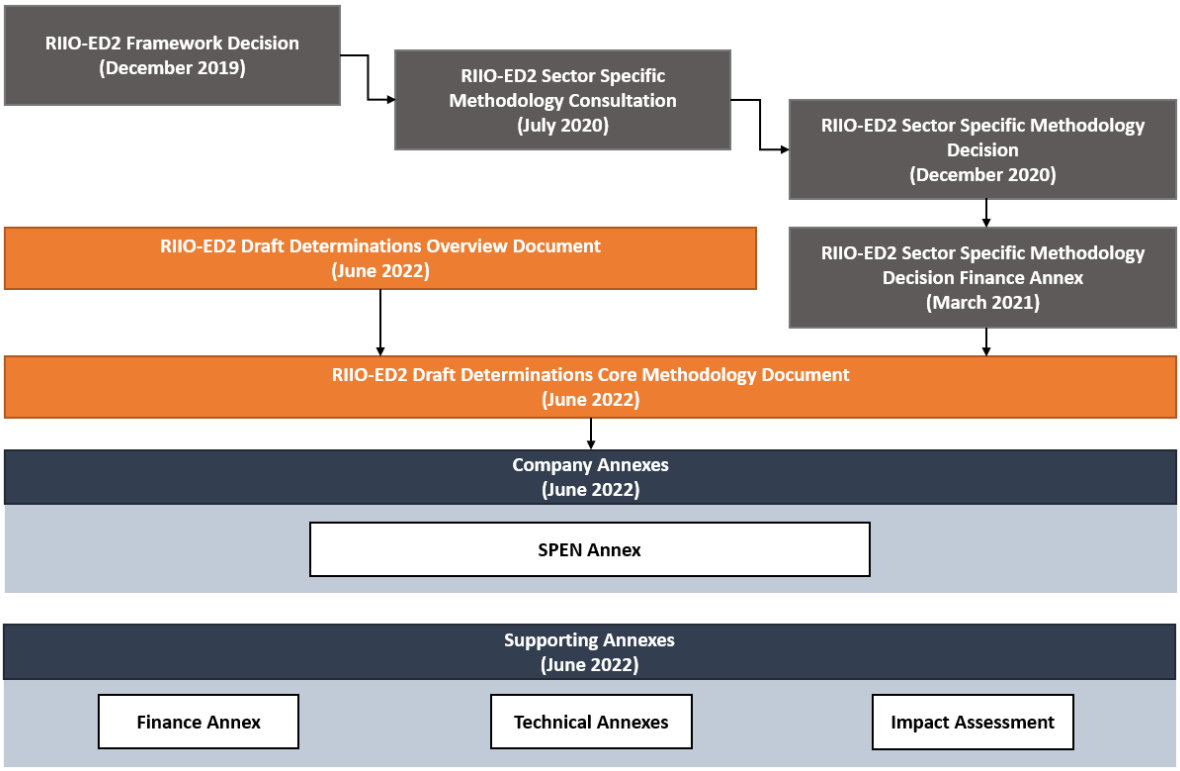
1.3 This document sets out any proposals that are specific to SPEN, including:

- assessment of business plan incentive (BPI), including consumer value propositions (CVPs)
- baseline cost allowances
- parameters for common outputs
- bespoke Output Delivery Incentives (ODIs)[1]
- bespoke Price Control Deliverables (PCDs)
- bespoke Uncertainty Mechanisms (UMs)
- Network Innovation Allowance (NIA) funding.

1.4 This document is intended to be read alongside the RIIO-ED2 Draft Determinations Core Methodology Document and RIIO-ED2 Draft Determinations Overview Document. Figure 1 sets out where you can find information about other areas of our RIIO-ED2 Draft Determinations.

[1] In this document, we refer to 'ODI-F' which is a financial incentive and 'ODI-R' which is a reputational incentive

Figure 1: Draft Determinations document map



What comprises SPEN's Draft Determinations?

1.5 This section sets out a high-level summary of the elements of our Draft Determinations which are specific to SPEN.

1.6 Table 1 summarises our assessment of SPEN across the four stages of the BPI and where you can find additional information about our proposals for each stage.

Table 1: Summary of proposed SPEN BPI performance

BPI stage	Ofgem proposed position	Further detail
Stage 1 Minimum Requirements	Pass	Overview document for approach to assessment and rationale
Stage 2 Consumer Value Propositions	No reward	Chapter 2
Stage 3 Penalty	No penalty	Chapter 3
Stage 4 Reward	No reward	Chapter 3

Cap calculation	N/A	Overview document for approach to assessment and rationale
Overall	No penalty and no reward	

1.7 The cost confidence assessment we have undertaken as part of this process results in a proposed Totex[2] Incentive Mechanism (TIM) incentive rate for SPEN of 49.9%. For further details on the TIM, see Chapter 9 in the Overview Document.

1.8 We present a summary of our proposed baseline Totex for SPEN in Table 2. This reflects our view of efficient costs including ongoing efficiency over RIIO-ED2. For further details, please refer to Chapter 7 of the Core Methodology Document.

Table 2: SPEN RIIO-ED2 submitted Totex versus proposed Totex (£m, 2020/21)[3]

Cost area	SPEN submitted Totex	Ofgem proposed Totex	Difference	Difference
Load related capex	434	374	-60	-13.8%
Non-load related capex	1,173	1,007	-166	-14.2%
Non-operating capex	164	142	-22	-13.4%
Network operating costs	531	459	-72	-13.6%
Closely associated indirects	726	627	-99	-13.6%
Business support costs	369	319	-50	-13.6%
Totex	3,397	2,928	-469	-13.8%

1.9 The common outputs that we are proposing for all DNOs in RIIO-ED2 are set out in Table 3 with further details in the Core Methodology Document. Table 3 also sets out the bespoke outputs that we are proposing to apply to SPEN in RIIO-ED2 (further details are contained within Chapter 2).

[2] Totex is a shorthand term for total expenditure

[3] Submitted Totex is net costs, including our cost exclusions and reallocations and excluding real price effects (RPE), ongoing efficiency, non-controllable costs, and pass-through costs (except New Transmission Capacity Charges (NTCC)). Proposed Totex is net costs, excluding RPEs, non-controllable costs, pass-through costs (except NTCC), but includes Ofgem's view of ongoing efficiency and is before post-modelling adjustments for uncertainty mechanisms.

Table 3: Summary of proposed common and bespoke outputs applicable to SPEN

Output name	Output Type	Further detail
Common outputs for the ED Sector		
Annual environmental report	ODI-R	Chapter 3, Core Methodology Document
DSO strategy delivery incentive	ODI-F	Chapter 4 Core Methodology Document
Digitalisation Licence condition	Licence Condition (LC)	Chapter 4 Core Methodology Document
TBM taxonomy for classifying digital/IT spend	ODI-R	Chapter 4 Core Methodology Document
Innovation project to modernise regulatory reporting	ODI-R	Chapter 4 Core Methodology Document
Customer Satisfaction Survey	ODI-F	Chapter 5, Core Methodology Document
Complaints Metric	ODI-F	Chapter 5, Core Methodology Document
Time to Connect	ODI-F	Chapter 5, Core Methodology Document
Guaranteed Standards of Performance – Connections	LC	Chapter 5, Core Methodology Document
Major Connections Incentive	ODI-F	Chapter 5, Core Methodology Document, and Chapter 2 of this document
Treating Domestic Customers Fairly	LC	Chapter 5, Core Methodology Document
Consumer Vulnerability Incentive	ODI-F	Chapter 5, Core Methodology Document, and Chapter 2 of this document
Vulnerability Annual Report	ODI-R	Chapter 5, Core Methodology Document
Interruptions Incentive Scheme	ODI-F	Chapter 6, Core Methodology Document and Chapter 2 of this document
Guaranteed Standards of Performance – Reliability	LC	Chapter 6, Core Methodology Document
Network asset risk metric (NARM)	PCD, ODI-F	Chapter 6, Core Methodology Document, and Chapter 2 of this document

Output name	Output Type	Further detail
Cyber Resilience IT	PCD	Confidential SPEN annex
Cyber Resilience OT	PCD	Confidential SPEN annex
Bespoke outputs to SPEN		
Biodiversity Licence Obligation with clawback	PCD	Chapter 2
Network loss reductions and safety enhancement	CVP no reward, PCD	Chapter 2
EV Optioneering	CVP no reward, PCD	Chapter 2
Advanced Fault Management	CVP no reward	Chapter 2

1.10 The common UMs that we are proposing for all DNOs in RIIO-ED2 are set out in Table 4 with further details in the Core Methodology Document. We set out the UMs that we are proposing for SPEN in Table 4 (further detail is in Chapter 4).

Table 4: Summary of proposed common and bespoke uncertainty mechanism applicable to SPEN

UM Name	UM type	Further detail
Common UMs to the ED sector		
Coordinated Adjustment Mechanism	Re-opener	Overview, Chapter 5 of SSMD[4]
Real Price Effects	Indexation	Annex 2, Chapter 4 of SSMD
Ofgem Licence fee	Pass-through	Annex 2, Chapter 8 of SSMD
Business rates	Pass-through	Annex 2, Chapter 8 of SSMD
Transmission Connection Point Charges	Pass-through	Annex 2, Chapter 8 of SSMD
Pension deficit repair mechanism	Pass-through	Annex 2, Chapter 8 of SSMD
Ring-fence costs	Pass-through	Annex 2, Chapter 8 of SSMD

[4] Sector Specific Methodology Decision (SSMD) https://www.ofgem.gov.uk/publications/riio-ed2-sector-specific-methodology-decision

UM Name	UM type	Further detail
Miscellaneous pass-through	Pass-through	Annex 2, Chapter 8 of SSMD
Environmental	Re-opener	Chapter 3, Core Methodology Document
Visual amenity	Use It Or Lose It (UIOLI)	Chapter 3, Core Methodology Document
Polychlorinated biphenyls	Volume driver	Chapter 3, Core Methodology Document
Load Related Expenditure (LRE) – Secondary Reinforcement	Volume driver	Chapter 3, Core Methodology Document
LRE – Low Voltage (LV) Services	Volume driver	Chapter 3, Core Methodology Document
LRE - General	Re-opener	Chapter 3, Core Methodology Document
Net Zero	Re-opener	Chapter 3, Core Methodology Document
Digitalisation	Re-opener	Chapter 4, Core Methodology Document
DSO re-opener	Re-opener	Chapter 4, Core Methodology Document
Worst Served Customers	UIOLI	Chapter 6, Core Methodology Document
Severe Weather 1-in-20	Pass-through	Chapter 6, Core Methodology Document
Storm Arwen	Re-opener	Chapter 6, Overview Document
Physical security	Re-opener	Chapter 6, Core Methodology Document
Electricity system restoration	Re-opener	Chapter 6, Core Methodology Document
Cyber resilience OT and IT	Re-opener	Chapter 6, Core Methodology Document and Confidential SPEN annex
Cyber Resilience OT	UIOLI	Chapter 6, Core Methodology Document and Confidential SPEN annex
Smart meter information technology costs	Pass-through	Chapter 7, Core Methodology Document
Smart meter communications costs	Pass-through	Chapter 7, Core Methodology Document

UM Name	UM type	Further detail
Streetworks costs	Re-opener	Chapter 7, Core Methodology Document
Rail electrification	Re-opener	Chapter 7, Core Methodology Document
High Value Projects	Re-opener	Chapter 7, Core Methodology Document
Cost of debt indexation	Indexation	Chapter 2, Finance Annex
Cost of equity indexation	Indexation	Chapter 3, Finance Annex
Tax review	Re-opener	Chapter 7, Finance Annex
Inflation indexation of RAV	Indexation	Chapter 9, Finance Annex
Electric Vehicle (EV) Provider of Last Resort	To be confirmed	Chapter 7, Overview Document
Bespoke UMs		
N/A		

1.11 Table 5 sets out our Network Innovation Allowance (NIA) proposals for SPEN (further details can be found in Chapter 5). Our general approach to the NIA is set out in Chapter 3 of our Core Methodology Document.

Table 5: Summary of proposed Network Innovation Allowance applicable to SPEN

Consultation position on SPEN NIA
£11.1m initial allowance, to be reviewed in 2025

1.12 Table 6 summarises the financing arrangements that we are proposing to apply to SPEN and all other DNOs. Please refer to Chapter 4 of our Finance Annex for more detail on these areas.

Table 6: Summary of financing arrangements applicable to SPEN

Finance Parameter	SPEN (SPD and SPMW) Rate	Source
Notional gearing	60%	See Table 19 in Finance Annex
Cost of equity allowance	4.75%	
Cost of debt allowance	2.26%	

WACC allowance	3.26%	

2. Setting outputs

Introduction

2.1 This chapter sets out our Draft Determinations for output areas that specifically apply to SPEN. In this chapter we provide our proposals on:

- The SPEN specific parameters for the common outputs, detailed in our Core Methodology annex, which we propose to apply to all DNOs.
- The bespoke outputs and CVPs proposed in SPEN's Business Plan and any bespoke outputs and CVPs that we propose to apply to SPEN.

Common outputs

2.2 The SPEN specific parameters for the common outputs which we are proposing for all companies in RIIO-ED2, are set out in the tables below. Further details on these outputs and our consultation position are set out in the Core Methodology Document.

Interruptions Incentive Scheme

2.3 Tables 7-10 summarise SPEN's unplanned Customer Interruptions (CI) and Customer Minutes Lost (CML) targets and revenue cap and collar.

2.4 The unplanned targets are calculated under a common methodology that uses each DNO's own historical performance to determine their targets, which means they are bespoke for each DNO. This methodology ensures the DNOs are incentivised to improve their performance (or avoid it deteriorating) but recognises that there are factors that will affect each DNO's current performance and the cost and impact of any changes.

2.5 Please refer to Chapter 6 of the Core Methodology Document for our consultation position and rationale. Planned CI and CML targets will be provided at Final Determinations, once 2021/22 performance data has been finalised.

Table 7: Consultation position – IIS – unplanned CI targets

	2023/24	2024/25	2025/26	2026/27	2027/28
SPD	42.3	41.6	41.0	40.4	39.8
SPMW	31.9	31.8	31.6	31.5	31.3

Table 8: Consultation position – IIS – unplanned CML targets

	2023/24	2024/25	2025/26	2026/27	2027/28
SPD	28.5	28.0	27.6	27.2	26.8
SPMW	28.6	28.2	27.7	27.3	26.9

Table 9: Consultation position – IIS – revenue cap (£m)

	2023/24	2024/25	2025/26	2026/27	2027/28
SPD	8.3	8.3	8.3	8.3	8.3
SPMW	9.3	9.3	9.3	9.3	9.3

Table 10: Consultation position – IIS – revenue collar (£m)

	2023/24	2024/25	2025/26	2026/27	2027/28
SPD	20.8	20.8	20.8	20.8	20.8
SPMW	23.2	23.2	23.2	23.2	23.2

NARM PCD and ODI-F

2.6 Table 11 summarises SPEN's NARM baseline network risk output for RIIO-ED2. Please refer to the Chapter 6 of the Core Methodology Document for our consultation position and rationale.

Table 11 Consultation position – NARM PCD and ODI-F – Baseline Network Risk Outputs (£R, 2020/21 prices)

Network	Draft Determinations Proposed Baseline Network Risk Output
SPD	359,342,418

Network	Draft Determinations Proposed Baseline Network Risk Output
SPMW	454,239,242

Consumer Vulnerability Incentive (ODI-F)

2.7 These tables summarise SPEN's vulnerability targets, for the value of fuel poverty services delivered and the value of low carbon support services delivered.

Table 12: Consultation position – Consumer Vulnerability Incentive (ODI-F): the value of fuel poverty services delivered (NPV) (£m)

	Year 2 target	Year 5 target
SPEN bespoke target	£3.19m	£9.66m

Table 13: Consultation position – Consumer Vulnerability Incentive (ODI-F): the value of low carbon support services delivered (NPV) (£m)

	Year 2 target	Year 5 target
SPEN bespoke target	£0.4m	£3.61m

2.8 The Net Present Values (NPV) proposed by SPEN are the forecast values based on the delivery of its vulnerability strategy.

2.9 We have reviewed the targets proposed and the supporting rationale. That review is ongoing, and we will work with all DNOs to ensure that the DNOs' targets are complete, comparable and independently assured using the common Social Value Framework ahead of Final Determinations.

2.10 Our approach to bespoke target setting and further detail on these metrics can be found in Chapter 5 of our Core Methodology Document.

Major Connections Incentive (ODI-F)

2.11 The Major Connections Incentive strategy will be an ODI-F with a maximum penalty exposure of 0.9% base revenue, and applied to performance in the Major Connections Customer Satisfaction Survey.[5] Please see "Creating consistency in

[5] See the Major Connections Incentive section of the Core Methodology Document for more details.

baselines for ODI incentive rates, caps, or collars" in section 10 of the Finance Annex for our proposal to translate this incentive to 0.35% RoRE.

2.12 This is calculated by applying approximately a 0.1% penalty rate per Relevant Market Segment (RMS), and will be applied based on the number of RMS where effective competition has not been demonstrated.[6] Based on the outcomes of the Distribution Price Control Review 5 ('DPCR5') Competition Test and our minded-to proposals on the competition review, for:

- SPEN's SPD region, there would be a maximum penalty of 0.5% of base revenue and
- SPEN's SPMW region, there would be a maximum penalty of 0.7% of base revenue.

Consultation question

SPEN-Q1. What are your views on the values for the company specific parameters we have proposed for the common outputs that we have set out above?

Bespoke outputs

2.13 For RIIO-ED2, we invited companies to propose as part of their business plans additional bespoke outputs that reflected the needs of and feedback received from their stakeholders and consumers.

2.14 We said that companies were required to support their bespoke outputs with robust justification. In our Business Plan Guidance (BPG)[7], we asked for this justification in order to ensure that the potential consumer benefits put forward under bespoke outputs were significant enough to merit introducing any additional cost and / or regulatory complexity associated with them.

2.15 In making our Draft Determinations for RIIO-ED2 outputs, we have sought to strike a balance between these trade-offs for each bespoke proposal. You can find the background and our assessment approach in our Overview Document.

[6] For more details on which RMS have demonstrated evidence of effective competition, see https://www.ofgem.gov.uk/publications/consultation-our-review-competition-electricity-distribution-connections-marketour minded-to proposals https://www.ofgem.gov.uk/publications/consultation-our-review-competition-electricity-distribution-connections-market.
[7] Business Plan Guidance, https://www.ofgem.gov.uk/publications/riio-ed2-business-plan-guidance

2.16 SPEN has submitted 4 outputs. This includes 1 ODI-R, 3 ODI-Fs, 1 PCD, 4 Licence Obligations and 4 CVPs. We provide a summary of each bespoke proposal below, however the full details of each bespoke output put forward by SPEN can be found in its Business Plan submission.

2.17 We set out our views on each bespoke, and following our assessment also detail which of the bespoke outputs we are proposing to accept and apply to SPEN in RIIO-ED2.

Bespoke Output Delivery Incentives

2.18 Table 14 below summarises the bespoke ODI proposals that SPEN submitted as part of its Business Plan and our consultation position.

Table 14: SPEN's bespoke ODI proposals

Output name and description	Output Type
Community Energy Strategy (ODI-F): To provide additional resource to increase awareness through a Community Energy Education Programme as well as support the delivery of activities that encourage and facilitate community-led renewable energy demand reduction, and energy supply projects	**Reject:** We expect engagement with local communities and energy groups to be Business As Usual (BAU) in RIIO-ED2. We are not satisfied that SPEN has provided sufficient evidence or justification for the need for this ODI-F and the activities they hope to deliver. Additionally, SPEN has not provided a sufficient assessment criteria and we do not consider it is a proportionate mechanism to facilitate greater community energy within their Licence areas. We propose to accept their baseline funding request of £3.05m with no ODI-F attached.
LV Connections Offer Accelerator (ODI-F): A reward-only ODI-F based on time to Quote metrics for certain Low Voltage ('LV') connection customers, on the basis that the connection work is similar to the Minor Connections LV connections,	**Reject**: In SPEN's proposal they note this activity can be delivered at zero cost. We are of the view that where a DNO is able to improve their service provision, through amending processes to increase efficiency, at zero cost to consumers, the DNO should aim to do so as part of developing and maintaining an efficient, coordinated and economical network and as a result we do not consider this should be incentivized by an ODI-F. Additionally, through our major connections incentive package, we propose to assess timeliness on a reputational basis, for

Output name and description	Output Type
where a common Time To Quote ODI-F already exists.	all Relevant Market Segments, and are proposing to conduct a review of the connections Guaranteed Standards of Performance ' to ensure connections timescales remain appropriate for RIIO-ED2.
Advice Services ODI-F: Provision of a range of advice services that help customers to reduce household or business costs, drive efficiency and access the benefits of the low carbon transition	**Reject:** We note that there are other sources of advice available to customers and as such we are not satisfied that this proposal should be financially incentivized in RIIO-ED2. In our view, the DNOs focus should be on providing advice where there is a clear network benefit, or clear benefits to vulnerable customers, including customers who are in fuel poverty.
Losses ODI-R: A reputational incentive to assess DNO ambition and progress in addressing losses on the networks.	**Reject**. We are not satisfied that the methodology they have proposed for their ODI-R is sufficiently robust. SPEN did not provide sufficient assessment criteria for the qualitative component, and we are unclear of the benefits offered by this ODI-R over and above the Annual Environmental Report (AER). DNOs will be required to report on the delivery of their Losses Strategies in the AER which is a common ODI-R and Licence Obligation.

Consultation question

SPEN-Q2. What are your views on our proposals for SPEN's bespoke ODIs?

Bespoke Price Control Deliverables

2.19 Table 15 below summarises the bespoke PCD proposals that SPEN submitted as part of its Business Plan and outlines our consultation position.

Table 15: SPEN's bespoke PCD proposals

Output name and description	Output Type
Land Rights: Delivery of efficient settlement of valid outstanding	**Reject**: We are not satisfied it is appropriate to be categorized as a PCD, as it relates to RIIO-ED1

Output name and description	Output Type
Injurious Affection (IA) claims from the RIIO-ED1 period	activities. As a result, the cost needs to be managed within SPEN's Totex allowances.
Biodiversity Licence Obligation with clawback: To enhance biodiversity across their networks on projects and programs by 500 biodiversity units (£7.5m) as well as pilot biodiversity enhancement initiatives across 25 hectares of non-operational land and existing linear infrastructure (£0.5m) at a total cost of £8.0m to consumers.	**Partially reject**: We propose to reject £7.5m of funding allocated to projects and programs across their network as the linkages to network developments and/or sites is not sufficiently evidenced. We propose to fund biodiversity initiatives across 25 hectares of non-operational land and existing infrastructure. This component of the proposal represents a cost of £0.5m to consumers and we propose to fund in baseline with a PCD.
Direct Low Carbon Transition Support to Vulnerable Customers: Providing assistance to a targeted group of vulnerable customers to reduce energy bills and carbon emissions by funding demand reduction technology and increasing the uptake of smart meters.	**Reject**: This proposal has been submitted as a CVP with a Licence Obligation with clawback (PCD). Our assessment is provided in the CVP section below.
Network loss reductions and safety enhancement: driving a purpose-built vehicle (MAAV) around communities to identify faults in electrical equipment to reduce technical losses.	**Accept**: This proposal has been submitted as a CVP with a Licence Obligation with clawback (PCD). Our assessment is provided in the CVP section below.
Electric Vehicle (EV) optioneering: EV optioneering aims to identify the optimal placement of EV charging infrastructure, saving on connections costs and accelerating the EV infrastructure rollout.	**Accept**: This proposal has been submitted as a CVP with a Licence Obligation with clawback (PCD). Our assessment is provided in the CVP section below.

Consultation question

SPEN-Q3. What are your views on our proposals for SPEN's bespoke PCDs?

Consumer Value Propositions

2.20 The table below summarises the CVP proposals that SPEN submitted as part of its Business Plan and our consultation position in relation to each.

Table 16: SPEN's CVP proposals

Output name and description	Output Type
Direct low carbon transition support to vulnerable customers: Providing assistance to a targeted group of vulnerable customers to reduce energy bills and carbon emissions by funding demand reduction technology and increasing the uptake of smart meters.	**Reject**: We do not consider that independently funding the promotion of smart meters is within the role of a DNO and consider there to be considerable risk of overlap with the supplier-led rollout. Instead we consider DNOs should maximize existing customer touchpoints and look to collaborate with planned rollout campaigns in line with the vulnerability baseline expectations. We also do not see sufficient evidence that SPEN is best placed to deliver the in-house technology solution. Therefore, we propose that this proposal does not receive a CVP reward.
EV Optioneering CVP: EV optioneering aims to identify the optimal placement of EV charging infrastructure, saving on connections costs and accelerating the EV infrastructure rollout.	**Accept with no reward**: We are proposing to accept this proposal with no reward. We are not satisfied that this proposal has provided evidence that the activity goes sufficiently beyond SPEN's baseline expectations (engaging with Local Authorities on investment and infrastructure planning needs). As a result, we propose that this proposal does not receive a CVP reward. We propose instead to provide a PCD allowance with clawback subject to more specific output measures being provided by SPEN. We consider this clawback, as proposed by SPEN, appropriate given the uncertainty of the number of optioneering reports that will be undertaken.
Network loss reductions and safety enhancement: driving a purpose-built vehicle (MAAV) around communities to identify faults in electrical equipment to reduce technical losses.	**Accept with no reward**: We are not satisfied this proposal has provided sufficient evidence that the activity would clearly go beyond SPEN's baseline expectations. The role of a DNO is to use reasonable endeavours to reduce their controllable losses and we believe that deploying technological options to do so is a BAU responsibility for DNOs in RIIO-ED2. Additionally, we are not satisfied the proposal includes a sufficiently robust methodology to evaluate the consumer value benefit and delivery associated with the mobile asset assessment vehicle. We propose to fund this activity through baseline with a PCD, but no CVP reward.

Output name and description	Output Type
Advanced Fault Management: Install fault level monitoring across 41 constrained locations instead of traditionally reinforcing the network.	**Accept with no reward**: We are proposing to accept this proposal but not to provide a reward. We are not satisfied that this proposal has provided sufficient evidence that the activity clearly goes beyond SPEN's baseline expectations. Where an efficient solution has been identified to defer reinforcement, we are of the view that this should considered as a BAU activity for the network operator. As a result, we propose that this proposal does not receive a CVP reward.

Consultation question

SPEN-Q4. What are your views on our proposals for SPEN's CVPs?

3. Setting baseline allowances

Introduction

3.1 This chapter sets out our Draft Determinations on baseline allowances for the different cost areas within SPEN's Business Plan submission. We intend this chapter to be read alongside other parts of our Draft Determinations that set out our overall approach to RIIO-ED2.

Baseline allowances

3.2 Baseline Totex referenced in this chapter comprises forecast controllable costs[8] and is inclusive of our proposed ongoing efficiency challenge, unless stated otherwise. Furthermore, the figures presented in this chapter do not include real price effects (RPEs) to allow comparison with DNOs' submissions.

3.3 Table 17 and Table 18 compares SPEN's submitted baseline Totex for each of its networks with our Draft Determinations position at a disaggregated cost activity level.

Table 17: SPD RIIO-ED2 submitted Totex versus proposed Totex by cost activity (£m, 2020/21 price base)

SPD	Cost activity	Submitted Totex	Proposed Totex	Difference	Difference
Capex	Connections	35	30	-5	-13.8%
Capex	New Transmission Capacity Charges	21	18	-3	-13.6%
Capex	Primary Reinforcement	56	49	-7	-13.2%
Capex	Secondary Reinforcement	132	114	-18	-13.7%
Capex	Fault Level Reinforcement	12	11	-2	-13.3%
Capex	Civil Works Condition Driven	18	16	-2	-13.2%

[8] Non-controllable costs, while included in overall allowed revenue recoverable by DNOs, are not included in baseline Totex and are treated separately. See Chapter 7 of the Core Methodology Document for more details on what is and isn't included in the numbers presented here.

SPD	Cost activity	Submitted Totex	Proposed Totex	Difference	Difference
Capex	Blackstart	3	2	-0	-13.1%
Capex	Legal and Safety	18	15	-2	-13.1%
Capex	QoS and North of Scotland Resilience	12	-	-12	-100.0%
Capex	Flood Mitigation	5	5	-1	-13.3%
Capex	Physical Security	-	-	-	-
Capex	Rising and Lateral Mains	34	29	-5	-13.8%
Capex	Overhead Line Clearances	10	8	-1	-13.3%
Capex	Losses	15	13	-2	-13.4%
Capex	Environmental Reporting	38	33	-5	-12.6%
Capex	Operational IT and telecoms	105	91	-14	-13.3%
Capex	Worst Served Customers	6	5	-1	-12.1%
Capex	Visual Amenity	2	2	-0	-14.4%
Capex	Diversions (excl Rail)	19	16	-2	-13.3%
Capex	Diversions Rail Electrification	-	-	-	-
Capex	Civil Works Asset Replacement Driven	14	12	-2	-13.2%
Capex	Asset Replacement NARM	146	127	-19	-13.2%
Capex	Asset Replacement Non-NARM	73	63	-10	-13.5%
Capex	Asset Refurbishment Non-NARM	18	16	-2	-13.4%
Capex	Asset Refurbishment NARM	5	5	-1	-13.2%
Capex	IT and Telecoms (Non-Op)	50	44	-7	-13.1%
Capex	Non-Op Property	24	21	-3	-13.3%

SPD	Cost activity	Submitted Totex	Proposed Totex	Difference	Difference
Capex	Vehicles and Transport (Non-Op)	6	6	-1	-12.7%
Capex	Small Tools and Equipment	5	5	-1	-13.3%
Capex	HVP RIIO-ED2	-	-	-	-
Capex	Shetland	-	-	-	-
Opex	Tree Cutting	24	21	-3	-13.3%
Opex	Faults	121	105	-16	-13.3%
Opex	Severe Weather 1 in 20	6	-	-6	-100.0%
Opex	Occurrences Not Incentivised (ONIs)	26	22	-3	-13.3%
Opex	Inspections	9	8	-1	-13.3%
Opex	Repair and Maintenance	40	35	-5	-13.3%
Opex	Dismantlement	1	1	-0	-13.3%
Opex	Remote Generation Opex	-	-	-	-
Opex	Substation Electricity	12	11	-2	-13.3%
Opex	Smart Meter Rollout	12	11	-1	-12.3%
Opex	Total Closely associated indirects (CAI)	363	315	-48	-13.3%
Opex	Total Business Support	190	165	-25	-13.2%
Cost activities sub-total[9]		1,687	1,447	-240	-14.2%
Excluded cost activities[10]		-18	-		-
Total Totex (modelled component)		1,669	1,447	-222	-13.3%

[9] Proposed Totex for Worst Served Customers and Visual Amenity are shown here including ongoing efficiency for comparability with other activities, but ongoing efficiency is removed from these two activities as a post-modelling step. See Worst Served Customers and Visual Amenity sections in Chapter 7 of the Core Methodology Document for the proposed Totex values excluding ongoing efficiency.

[10] QoS & North of Scotland Resilience, Diversions Rail Electrification and Severe Weather 1 in 20 cost activities are excluded from the modelled component of Totex. See Chapter 7 of the Core Methodology Document for details.

SPD	Cost activity	Submitted Totex	Proposed Totex	Difference	Difference
Technically assessed Totex		7	4	-3	-44.9%
Total Totex		1,676	1,451	-225	-13.5%

Table 18: SPMW RIIO-ED2 submitted Totex versus proposed Totex by cost activity (£m, 2020/21 price base)

SPMW	Cost activity	Submitted Totex	Proposed Totex	Difference	Difference
Capex	Connections	18	15	-3	-14.2%
Capex	New Transmission Capacity Charges	2	1	-0	-13.0%
Capex	Primary Reinforcement	51	44	-7	-14.0%
Capex	Secondary Reinforcement	88	76	-13	-14.3%
Capex	Fault Level Reinforcement	16	14	-2	-13.7%
Capex	Civil Works Condition Driven	20	17	-3	-14.1%
Capex	Blackstart	4	3	-1	-13.4%
Capex	Legal and Safety	23	20	-3	-13.9%
Capex	QoS and North of Scotland Resilience	14	-	-14	-100.0%
Capex	Flood Mitigation	4	4	-1	-13.9%
Capex	Physical Security	-	-	-	-
Capex	Rising and Lateral Mains	27	23	-4	-14.2%
Capex	Overhead Line Clearances	15	13	-2	-13.8%
Capex	Losses	8	7	-1	-14.0%
Capex	Environmental Reporting	41	36	-5	-13.1%
Capex	Operational IT and telecoms	117	101	-16	-13.9%

SPMW	Cost activity	Submitted Totex	Proposed Totex	Difference	Difference
Capex	Worst Served Customers	9	8	-1	-13.3%
Capex	Visual Amenity	3	2	-0	-15.0%
Capex	Diversions (excl Rail)	38	33	-5	-14.0%
Capex	Diversions Rail Electrification	-	-	-	-
Capex	Civil Works Asset Replacement Driven	13	11	-2	-14.0%
Capex	Asset Replacement NARM	190	163	-26	-13.9%
Capex	Asset Replacement Non-NARM	83	71	-12	-14.1%
Capex	Asset Refurbishment Non-NARM	28	24	-4	-14.0%
Capex	Asset Refurbishment NARM	14	12	-2	-13.7%
Capex	IT and Telecoms (Non-Op)	49	42	-7	-13.7%
Capex	Non-Op Property	17	15	-2	-13.9%
Capex	Vehicles and Transport (Non-Op)	6	5	-1	-13.4%
Capex	Small Tools and Equipment	6	5	-1	-14.0%
Capex	HVP RIIO-ED2	-	-	-	-
Capex	Shetland	-	-	-	-
Opex	Tree Cutting	58	50	-8	-14.0%
Opex	Faults	121	104	-17	-14.0%
Opex	Severe Weather 1 in 20	9	-	-9	-100.0%
Opex	Occurrences Not Incentivised (ONIs)	25	21	-3	-14.0%
Opex	Inspections	12	10	-2	-14.0%
Opex	Repair and Maintenance	53	45	-7	-14.0%

SPMW	Cost activity	Submitted Totex	Proposed Totex	Difference	Difference
Opex	Dismantlement	1	0	-0	-14.0%
Opex	Remote Generation Opex	-	-	-	-
Opex	Substation Electricity	9	8	-1	-14.0%
Opex	Smart Meter Rollout	8	7	-1	-12.9%
Opex	Total Closely associated indirects (CAI)	358	308	-50	-14.0%
Opex	Total Business Support	179	154	-25	-13.9%
Cost activities sub-total[11]		1,736	1,474	-262	-15.1%
Excluded cost activities[12]		-23	-		-
Total Totex (modelled component)		1,713	1,474	-239	-13.9%
Technically assessed Totex		9	4	-5	-57.5%
Total Totex		1,721	1,477	-244	-14.2%

Technically assessed costs

3.4 For technically assessed costs, we have made the following adjustments, listed in Table 19 below. Our proposed view of bespoke outputs is presented in Chapter 2. Further details we have on other items is provided later in this chapter.

[11] Proposed Totex for Worst Served Customers and Visual Amenity are shown here including ongoing efficiency for comparability with other activities, but ongoing efficiency is removed from these two activities as a post-modelling step. See Worst Served Customers and Visual Amenity sections in Chapter 7 of the Core Methodology Document for the proposed Totex values excluding ongoing efficiency.

[12] QoS & North of Scotland Resilience, Diversions Rail Electrification and Severe Weather 1 in 20 cost activities are excluded from the modelled component of Totex. See Chapter 7 of the Core Methodology Document for details.

Table 19: SPEN's technically assessed costs

Proposal name	Draft Determinations proposal		
	Submitted	*Proposed (1)*	*Confidence*
	£m	£m	
Biodiversity	8.0	0.5	Lower
CVP4: Advanced Fault Level Management	2.4	2.4	High
(1) Proposed costs do not include efficiency challenge			

3.5 For its Biodiversity proposal, we consider that SPEN did not provide suitable independent cost information to support a high confidence classification for these costs. This was due in part to SPEN not providing sufficient evidence to support its estimated biodiversity unit cost for the type and volume of work proposed to be delivered as well as limited optioneering for how this funding would be spend. Therefore, we are proposing funding £0.5m to cover costs related to biodiversity enhancement alongside existing linear infrastructure and on non-operational land.

3.6 For its CVP4 proposal, we consider that the costs are well-justified, in terms of providing clear unit costs, numbers of systems that will be rolled out and why the costs are such (ie whether it is the cost of the kit or other items). Additionally, clear optioneering against the baseline scenario is provided. Some comparable costs for benchmarking exist, given the trial that was conducted through the NIA, however, these costs were not provided in the CVP proposal.

Engineering Justification Paper review

3.7 We have reviewed each of the individual Engineering Justification Papers (EJPs) submitted by SPEN, as well as the relevant supporting documentation. These EJPs were assessed in accordance with paragraph 2.23 of the Engineering Justification Papers for RIIO-ED2 Guidance document.

3.8 As discussed in Chapter 7 of our Core Methodology Document, our assessment provided a view on each EJP that was assigned one of three outcomes: Justified, Partially Justified or Unjustified.

3.9 Our reviews of the EJPs are one of several assessment tools that has contributed to our overall assessment and proposed costs and volumes. The positions set out in this section should be considered in the wider context of the cost assessment methodology set out in Chapter 7 of the Core Methodology Document.

3.10 SPEN submitted a total of 132 EJPs to substantiate their RIIO-ED2 business plan.

3.11 On balance, we are generally satisfied with the quality of SPEN's EJPs. We consider SPEN have demonstrated a consistent strategy which aims to ensure a fit for purpose network at present and in the future.

3.12 We consider that SPEN's plan is underpinned by the use of robust asset and system data to a proportionate level to realise their preferred option. In the number of EJPs where SPEN have not provided sufficient information, they provided detailed SQ responses which have informed our Draft Determinations proposals. From an engineering perspective, we considered SPEN's RIIO-ED2 Business Plan to be consistent with a wider multiyear strategy on network investment across investment categories.

3.13 A summary of our review assessing SPEN's EJPs as Justified, Partially Justified, or Unjustified for each EJP is presented in Table 20.

Table 20 - Summary of the SPEN EJP Review

EJP Review Outcome	No. of EJPs
Justified	107
Partially Justified	22
Unjustified	2
Other (Not reviewed by Engineering Hub)[13]	1
Total EJPs	**132**

[13] Where the EJP was considered out of scope of our engineering assessment eg the EJP primarily designed for specialist review other than engineering resource.

Load Related Investment Proposals

3.14 Our review concludes that at this stage, SPEN's Load Related Expenditure (LRE) proposals all presented sufficient evidence to demonstrate a need for investment and presented adequate optioneering and solution development. We have confidence that the network constraints presented will materialise, in part as SPEN's Business Plan is built around a baseline forecast towards the lower end of net-zero compliant scenarios. We note that the investments proposed by SPEN within their EJPs were all consistent with their chosen demand growth scenario.

3.15 At Extra High Voltage (EHV) level and above, we are satisfied that SPEN's optioneering presents credible and proportionate proposed solutions, regardless of the outturn scenario. We therefore consider the majority of SPEN's LRE plan to be Justified.

3.16 We note that flexibility presents an area of risk in relation to SPEN's LRE submission. While we are satisfied that SPEN has considered flexibility in their LRE plan with respect to current availability via tenders, future tenders are expected to yield greater flexibility and will therefore likely facilitate intervention deferral or delay, impacting the outturn investment needed over the course of RIIO-ED2.

3.17 Our LRE engineering review and recommendations have helped inform the LRE Draft Determinations proposals. The overall Draft Determination proposals reflect the wider assessment undertaken, including the processes described in Chapters 3 and 7 of the Core Methodology document.

Non-Load Related investment proposals

3.18 We consider that in general, SPEN's proposed condition-based asset replacement and refurbishment expenditure is well planned. Overall, SPEN adequately explain processes undertaken to arrive at the proposed intervention volumes, driven by appropriate factors including deliverability, relevant engineering expertise and prioritisation of network risk.

3.19 We consider SPEN's optioneering across these EJPs to be appropriate. Where proposed volumes are significantly different to historical volumes, we consider SPEN's plan has demonstrated a sufficient needs case justification for the works. We therefore consider the majority of SPEN's condition-based asset replacement and refurbishment plan to be Justified at this stage.

3.20 Our review concludes that at this stage, SPEN's other non-load related proposals for the large part require further work in order to justify the proposed expenditure. In general, we consider SPEN has demonstrated the needs case for the works proposed, however we consider the volumes of interventions proposed to be uncertain. We have therefore deemed a large number of these EJPs to be Partially Justified.

TIM

3.21 Our cost confidence assessment results in a proposed Totex Incentive Mechanism (TIM) incentive rate for SPEN of 49.9%. For further details on the TIM, see Chapter 9 in the Core Methodology Document.

BPI Stage 3

3.22 We propose that SPEN does not incur any penalty following our BPI Stage 3 assessment. Though we identified some lower confidence costs associated with its Biodiversity proposal we do not consider the costs we have removed to be poorly-justified.

3.23 Table 21 sets out our proposals on lower cost confidence cost categories and our rationale for any associated Stage 3 penalties.

Table 21: Draft Determinations and rationale for BPI Stage 3

Proposal name	Lower confidence cost disallowance	BPI penalty	Rationale
Biodiversity	7.5	N/A	We have lower confidence in the proposal but do not consider the removed costs to be poorly justified. As biodiversity is an evolving area of work for the DNOs, we do not consider it appropriate to penalise SPEN's ambition to deliver increased biodiversity across its Licence areas.

BPI Stage 4

3.24 We propose that SPEN will earn no reward following our BPI stage 4 assessment.

3.25 Table 22 sets out our proposals on high cost confidence categories and allowances (before the application of RPEs and OE).

Table 22: Draft Determinations on Stage 4

Cost category	Company's view (£m)	Ofgem view (£m)	BPI reward
Modelled costs	3,381.9	3,218.4	N/A
CVP4: Advanced Fault Level Management	2.4	2.3	N/A

Consultation Question

SPEN-Q5. What are your views on our proposals for the outcome of Stages 3 and 4 of the BPI for SPEN?

4. Adjusting baseline allowances for uncertainty

Introduction

4.1 In this chapter we set out our consultation positions on the bespoke UMs that SPEN proposed in its Business Plan, and any bespoke UMs that we propose to apply to SPEN.

4.2 We set out detail on the common UMs in our Core Methodology Document and Overview Document, including the broader consultation position and rationale.

Bespoke UM Proposals

4.3 We invited the DNOs to propose bespoke UMs with suitable justification in our SSMD.[14] We have considered the extent to which the supporting information justifies the key criteria outlined in the BPG:

- Materiality and likelihood of the uncertainty
- How the risk is apportioned between consumers and the network company
- The operation of the mechanism
- How any drawbacks may be mitigated to deliver value for money and efficient delivery.

4.4 We also considered whether the uncertainty was regionally specific, or sector wide, to assess whether a common re-opener could be more appropriate. You can find the background and our assessment approach in Chapter 6 our Overview Document.

4.5 The table below summarises the bespoke UM proposals that SPEN submitted and our consultation position.

4.6 For full details on bespoke UMs, refer to SPEN's Business Plan submission.

Table 23: DNO bespoke UM proposals

UM name	Consultation position
Polychlorinated biphenyl (PCB) volume driver: To manage the volumes	**Accept as common UM.** With adjustment to form a common volume driver design for all

[14] Paragraph 5.37 of our SSMD https://www.ofgem.gov.uk/publications/riio-ed2-sector-specific-methodology-decision. Paragraph 5.44 of our BPG https://www.ofgem.gov.uk/publications/riio-ed2-business-plan-guidance.

UM name	Consultation position
of PCB contaminated pole-mounted transformers (PMTs).	DNOs with an overhead network. Additional detail can be found in Chapter 3 of the Core Methodology Document.
Managing uncertainty in the load Programme (strategic investment UM): a set of uncertainty mechanisms (re-opener and two volume drivers) to manage LRE uncertainty.	**Reject:** we consider this is addressed by our common LRE UM. Please refer to Chapter 3 of the Core Methodology Document for more information.
EV charge point Provider of Last Resort: pass-through mechanism to remunerate costs associated with discharging its Obligations under Standard Licence Condition 31F (Requirements relating to Electric Vehicle Recharging Points).	**Accept as common UM**: We propose to establish a common funding mechanism for all DNOs and are consulting on two options to fund POLR activities. Please refer to Chapter 6 of our Overview document for further information.
Significant Code Review: an uncertainty mechanism to manage significant deviation from forecast due to Access SCR.	**Reject**: we consider this is addressed by our common LRE UM. Please refer to Chapter 10 of the Overview document and Chapter 3 of the Core Methodology Document for more information.
Severe Weather 1 in 20: pass-through mechanism to remunerate costs associated with a storm event which meets the severe weather 1-20 thresholds.	**Reject**: We are consulting on changes to the RIIO-ED1 funding mechanism for severe weather 1 in 20 events and have proposed establishing a variable Totex allowance for this cost area. Please refer to chapter 6 of our Core Methodology Document for more information.
Digitalisation: an uncertainty mechanism to allow DNOs to respond to policy/system changes in the rapidly moving digitalisation policy area.	**Accept as common UM**: we are proposing a variant of this UM as a common UM for all DNOs. Please refer to Chapter 4 of the Core Methodology Document for more information.
Distributed restart: To facilitate the delivery Electricity System Restoration Services at DER sites.	**Reject**: we consider this is addressed by our common ESR UM. Please refer to Chapter 6 of the Core Methodology Document for more information.
Distribution Net Zero Fund: A Use-it-or-Lose-it allowance of £30m to support innovation and vulnerable customers. The Fund will uniquely focus on supporting community-led decarbonisation projects	**Reject:** We are not satisfied with the evidence provided to quantify the funding pot as well as the needs case has not been sufficiently justified. DNOs are expected to provide guidance and support to vulnerable consumers as well as engage with local communities to help facilitate the Net Zero transition as part of the RIIO-ED2 price control.

Consultation question

SPEN-Q6. What are your views on our proposals for SPEN's bespoke UMs?

5. Innovation

5.1 Our SSMD and the Core Methodology Document identify the criteria that we have used to assess Network Innovation Allowance (NIA) funding requests. The Core Methodology Document also details our proposals for the RIIO-ED2 NIA Framework and extension of the existing Strategic Innovation Fund to the DNOs.[15]

Network Innovation Allowance

5.2 SPEN proposed it should be awarded £35m of NIA over 5 years, equivalent to £7m per year, which is approximately double what SPEN had access to annually in RIIO-ED1. SPEN justified this increase with reference to stakeholder research which showed that 60% of respondents said that DNOs' should ask for an increase in NIA funding compared to RIIO-ED1, as significant innovation is needed to support the energy system transition and vulnerable consumers.

5.3 One research body commented on SPEN's submission, and argued that in RIIO-ED2, innovation stimulus funds were particularly important to facilitate continued progress towards net zero targets in the short timescales necessary. They did not however comment on whether they preferred this to be provided via the NIA or via the SIF.

5.4 We set out below our Draft Determinations on SPEN's RIIO-2 NIA funding.

Consultation position

Table 24: NIA consultation position

Name of the measure	DNO proposal	Consultation position
Level of NIA funding	£35m over 5 years	£11.1m initial allowance, to be reviewed in 2025.

Rationale for consultation position

5.5 We propose that SPEN should be awarded £11.1m (see Core Methodology Document, Paragraph 3.131 on our proposal to review in 2025 whether more NIA

[15] Paragraph 4.96 of our SSMD Overview Document https://www.ofgem.gov.uk/publications/riio-ed2-sector-specific-methodology-decisionhttps://www.ofgem.gov.uk/publications/riio-ed2-sector-specific-methodology-decision. Paragraph 1.325 of our Core Methodology Document.

funding is required). This is an initial 3-year allocation of NIA allowances, calibrated based on assessment against the NIA criteria and the subsequent benchmarking of allowances (see Core Methodology Document Paragraph 3.133 on our approach to benchmarking NIA).

5.6 We consider that SPEN satisfactorily met our five NIA criteria.

- SPEN proposed areas in which to target their innovation spending which we agreed carry risk and are suitable for ringfenced innovation stimulus funds.
- Moreover, the evidence provided by SPEN gives us comfort that it is planning to undertake innovative initiatives using BAU funds during RIIO-ED2.
- SPEN showed that its proposals incorporate best practices. SPEN's CEG noted in particular that SPEN has a strong track-record of collaboration.
- SPEN provided evidence that it monitors innovation spend.
- Finally, SPEN submitted evidence that indicates it has procedures in place to rollout innovation to BAU, including a process to monitor benefits from innovation projects. SPEN did not produce detailed quantified evidence in the form of models to support its claims of realised innovation project benefits. It did however in its Business Plan submission provide a detailed qualitative description of the process it has in place to monitor innovation benefits. SPEN's CEG found SPEN's strategy to rollout its innovations to be logical and comprehensive.

5.7 We do not agree with SPEN's rationale for asking for more NIA than it had access to in RIIO-ED1 which it justified by stating there was support from stakeholders. However, SPEN's CEG noted concerns with relatively limited, targeted stakeholder engagement on innovation, and consequently about how representative these stakeholders' views were of SPEN's wider stakeholder network.

5.8 Secondly, any additional innovation required to accelerate decarbonisation can be undertaken using SIF funds, alongside DNO BAU funds. We consider the stakeholders SPEN consulted would be equally supportive of these sources of funding being used to promote innovation, and therefore do not consider our proposals to be at odds with the findings from SPEN's consumer and stakeholder research in this area.

Consultation question

SPEN-Q7. What are your views on the level of proposed NIA funding for SPEN?

Appendix 1 - Key Engineering Recommendations

A1.1 This section provides additional details regarding our assessment of specific EJPs.

A1.2 Due to the high number of EJPs presented within the submission, we have not provided our view on each of SPEN's EJPs within this document. Instead, this section focuses on EJPs of significant value where our review determined the EJP to be Partially Justified or Unjustified.

Table 25: LRE – Key Engineering Recommendations

Paper	Comments	Identified risks
HV and LV Network Reinforcement (ED2-LRE-SPEN-002-CV2-EJP)	**Partially Justified.** We agree with the needs case and optioneering presented by SPEN. We have confidence in SPEN's proposed intervention volumes as their baseline scenario is at the lower end of net-zero compliant scenarios, and SPEN anticipate non-linear delivery aligned to forecast constraints.	Flexibility at the time of the submission is sufficient to defer 19% of substation interventions. We consider that the planned re-tendering of flexibility may allow further interventions to be deferred, resulting in cost savings.
Reinforcement of LV Services (ED2-LRE-SPEN-001-CV2-EJP)	**Unjustified.** We agree with SPEN's needs case to reinforce LV looped services. We are concerned that SPEN's proposal includes intervention on assets forecast to be overloaded out to 2050.	While we agree in principle that SPEN's proposed approach will yield programme efficiency gains, we consider the uncertainty in the needs case for intervention at the individual property level a significant risk in SPEN's proposal. There is also a risk of LCT uptake forecasting inaccuracies out to 2050.
SPM 33kV RMUs Fault Level Mitigation (ED2-LRE-SPM-011-CV3-EJP)	**Partially Justified.** We agree with SPEN's needs case, however consider the optioneering limited. The make/break duty % thresholds applied to determine the optimum solution are inadequately justified, with a number of RTUs proposed for replacement over RTFLM that are marginally over the aforementioned thresholds. We consider the justification for the proposed intervention on these assets needs further work.	We did not believe that the proposed volumes had been sufficiently justified at this stage. Therefore, there is a risk that the out-turn volumes may differ from the proposed volumes.

Table 26: Non-Load Related Expenditure (NLRE): Non-NARM – Key Engineering Recommendations

Paper	Comments	Identified risks
DSO Infrastructure (ED2-NLR(O)-SPEN-001-DSO-EJP)	**Partially Justified.** We agree with the needs case and optioneering presented by SPEN, however there is uncertainty in relation to the proposed volumes.	There is uncertainty in the volume, location and size of CMZs, therefore there is a risk that such changes will impact the proposed project costs.
Rising Lateral Mains (ED2-NLR(A)-SPEN-005-RES-EJP)	**Partially Justified.** We agree with the needs case and optioneering presented by SPEN. However, we are concerned that SPEN's proposal is based on survey data from a small sample size extrapolated over the asset base. We consider the volume of interventions proposed by SPEN to be uncertain.	There is a risk that the out-turn volumes will differ from the volumes that SPEN have proposed in their submission.
Site Security (ED2-NLR(A)-SPEN-002-SAF-EJP)	**Partially Justified.** We agree in principle with SPEN's desire to upgrade substation site security. We are concerned with the significant increase in expenditure proposed by SPEN when compared to RIIO-ED1, however we broadly agree with SPEN's optioneering and intervention prioritisation.	Due to the significant increase in proposed expenditure, we believe there is a deliverability risk associated with the EJP.
Legal and Safety, - Fire Protection (ED2-NLR(A)-SPEN-003-SAF-EJP)	**Partially Justified**. While we agree with the needs case in principle, we do not believe that sufficient justification has been provided for SPEN's proposed significant increase in expenditure. In particular, we consider SPEN's proposal is based on limited sampling beyond desktop surveys. We therefore have insufficient confidence in the forecast volumes.	The limited sampling used by SPEN means that there is a risk that the outturn volumes differ significantly from SPEN's proposed volumes.
Environmental Flood Resilience (ED2-NLR(A)-SPEN-003-RES-EJP)	**Partially Justified**. We agree with the needs case presented by SPEN. We consider the proposed volumes to be uncertain as they are based on DCPR5 and RIIO-ED1 intervention rates, as opposed to site requirements, which will be known after SPEN complete their proposed surveys.	There is a risk that the out-turn volumes will differ from the volumes that SPEN have proposed in their submission.
Condition Driven Civils (ED2-NLR(A)-	**Partially Justified.** We agree with the needs case presented by SPEN. However, we consider the volume and cost of interventions proposed to be uncertain,	The specific scope of works have not yet been confirmed, therefore there is a risk of a significant difference to

Paper	Comments	Identified risks
SPEN-002-RES-EJP)	as the scope of works on a site by site basis is yet to be determined.	the final expenditure in relation to these works.
Telecoms Improvement (SPM and SPD)	**Partially Justified.** Overall, we agree with SPEN's needs case and methodology driving the proposed intervention volumes. We have low confidence in the needs case or delivery of relocation of vulnerable sites and new fibre routes as the EJP and SQ responses provide little information on what / where the site relocations involve, and how the risks are currently managed.	The EJP is lacking justification for the needs case for the vulnerable assets and new fibre routes. Therefore, there is a risk that the EJP's outputs may change significantly during RIIO-ED2.
Quality of Supply (ED2-NLR(A)-SPEN-001-QOS-EJP)	**Partially Justified.** We agree with the needs case for additional Network Control Points. However, we consider that SPEN's proposed intervention volume is uncertain.	There is a risk that the out-turn volumes will differ from the volumes that SPEN have proposed in their submission.
PCBs (ED2-NLR(A)-SPEN-003-ENV-EJP)	**Partially Justified**. We agree with the needs case and investment methodology presented by SPEN. However, we note that the EJP presents intervention volumes that do not account for the re-opener. We therefore expect the proposed volumes to reduce between Draft Determinations and Final Determinations.	There is a risk that the out-turn volumes will differ from the volumes that SPEN have proposed in their submission because the volumes associated with the RIIO-ED1 re-opener have not been considered within the EJP.
Legal and Safety (ED2-NLR(A)-SPEN-001-SAF-EJP)	**Partially Justified**. Limited details are provided in relation to SPEN's needs case for increased expenditure in Safety and Recreational Sites, which is attributed to "high profile incidents outside SPEN area". We also consider the volume proposed uncertain as SPEN indicate they plan on using LiDAR data (not available at the time of submission) to identify risk areas. We also consider SPEN's SPD metal theft volumes to be uncertain based on the smart lock rollout planned within RIIO-ED2, as this rollout in SPM in RIIO-ED1 was attributed to a reduction in metal theft.	There is a risk that the out-turn volumes will differ from the volumes that SPEN have proposed in their submission.
Diversions (ED2-NLR(A)-SPEN-001-CV5-EJP)	**Partially Justified**. We agree with the needs case for continued spend in this area and consider SPEN's proposal to continue at the RIIO-ED1 spend rate	Due to the reactive nature of these works, there is a risk that the out-turn volumes will differ from the volumes

Paper	Comments	Identified risks
	appropriate given the unknown volume of works.	that SPEN have proposed in their submission
Worst Served Customers (ED2-NLR(O)-SPEN-001-WSC-EJP)	**Partially Justified**. We agree with the needs case presented by SPEN, however SPEN have not outlined the works they will consider in making improvements for WSCs. Further, their proposed request is based on an allowance per WSC that is not reflective of scheme costs.	The EJP provides limited confidence in the deliverability of the works during RIIO-ED2. Therefore, there is a risk that the outputs at the end of RIIO-ED2 will differ from those that have been proposed.
Visual Amenity (ED2-NLR(O)-SPEN-001-ENV-EJP)	**Partially Justified**. We agree with the needs case presented by SPEN. However, we are concerned that schemes for intervention are yet to be identified, with SPEN anticipating investment in the last 3 years of RIIO-ED2. We consider SPEN's proposals to base intervention volume on an uplifted RIIO-ED1 rate based on stakeholder support alone unjustified.	As the specific schemes for intervention have not been identified at this stage, there is a risk in relation to both the deliverability and the volume outputs of this EJP.
Carbon offsetting (ED2-NLR(A)-SPEN-005-ENV-EJP)	**Partially Justified**. We agree with the needs case presented by SPEN, and SPEN's optioneering resulting in a preferred solution of carbon offsetting through rewilding.	There is a risk that the out-turn volumes will differ from the volumes that SPEN have proposed in their submission.
RTS Control System Simulator (ED2-NLR(O)-SPEN-005-RTS-EJP)	**Unjustified**. While we agree with the needs case; the cost information presented within the EJP, and therefore the associated CBA, is limited. This is mainly to do with the long-term use of the simulator where only the first 2 years have been planned.	There is a risk that both the needs case and optioneering provide insufficient justification for the works, in particular due to the limited cost information that has been provided.
Noise Pollution (ED2-NLR(A)-SPEN-001-ENV-EJP)	**Partially Justified**. SPEN's proposal is broadly in line with RIIO-ED1 rates for SPM, however far greater than RIIO-ED1 rates for SPD. We consider this increased expenditure in SPD is unjustified.	There is a volume and deliverability risk based on the increased expenditure from RIIO-ED1.

Table 27: NLRE: NARM – key engineering recommendations

Paper	Comments	Identified risks
LV Underground	**Partially Justified**. While we agree with the needs case for continued investment	The increase in average annual

Paper	Comments	Identified risks
Cable Modernisation (ED2-NLR(A)-SPEN-003-UG-EJP)	presented by SPEN, they propose to align investment to RIIO-ED1 volumes. This represents an increase in average annual investment which we consider has not been sufficiently justified.	volumes results in a deliverability risk.
Secondary Substation (ED2-NLR(A)-SPEN-001-SWGTX-EJP)	**Partially Justified**. We agree with SPEN's needs case for the proposed investment. We note that for the LV Switchgear interventions proposed, RIIO-ED1 planned interventions have not been taken into account. We consider the actual volumes in RIIO-ED2 will decrease. SPEN also propose to phase in the use of SF6-free SWG and RMUs assuming they will be commercially available from 2025. This comes at an additional unit cost.	The EJP does not consider the planned RIIO-ED1 interventions, therefore there is a risk to the proposed volumes.
4ZC Route 132kV Overhead Line Modernisation (ED2-NLR(A)-SPM-009-OHL-EJP)	**Partially Justified**. We agree with the needs case and optioneering presented by SPEN. However, previous discussions with NGET to upgrade the 132kV route to 400kV were driven by new nuclear power stations, which did not materialise. We consider there remains uncertainty in the optimum whole system solution.	There is a deliverability risk in relation to this EJP due to the uncertainty associated with the whole system solution.

Appendix 2 – Consultation questions

1. Introduction

2. Setting outputs

SPEN-Q1. What are your views on the values for the company specific parameters we have proposed for the common outputs that we have set out above?

SPEN-Q2. What are your views on our proposals for SPEN's bespoke ODIs?

SPEN-Q3. What are your views on our proposals for SPEN's bespoke PCDs?

SPEN-Q4. What are your views on our proposals for SPEN's CVPs?

3. Setting baseline allowances

SPEN-Q5. What are your views on our proposals for the outcome of Stages 3 and 4 of the BPI for SPEN?

4. Adjusting baseline allowances for uncertainty

SPEN-Q6. What are your views on our proposals for SPEN's bespoke UMs?

5. Innovation

SPEN-Q7. What are your views on the level of proposed NIA funding for SPEN?

Appendix 3 - Privacy notice on consultations

Personal data

The following explains your rights and gives you the information you are entitled to under the General Data Protection Regulation (GDPR).

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

1. The identity of the controller and contact details of our Data Protection Officer

The Gas and Electricity Markets Authority is the controller, (for ease of reference, "Ofgem"). The Data Protection Officer can be contacted at dpo@ofgem.gov.uk

2. Why we are collecting your personal data

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

3. Our legal basis for processing your personal data

As a public authority, the GDPR makes provision for Ofgem to process personal data as necessary for the effective performance of a task carried out in the public interest ie a consultation.

4. With whom we will be sharing your personal data

No personal data will be shared with any organisations outside Ofgem.

5. For how long we will keep your personal data, or criteria used to determine the retention period.

Your personal data will be held for twelve months after the project is closed.

6. Your rights

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right to:

1. know how we use your personal data
2. access your personal data
3. have personal data corrected if it is inaccurate or incomplete
4. ask us to delete personal data when we no longer need it
5. ask us to restrict how we process your data
6. get your data from us and re-use it across other services
7. object to certain ways we use your data
8. be safeguarded against risks where decisions based on your data are taken entirely automatically
9. tell us if we can share your information with 3rd parties
10. tell us your preferred frequency, content and format of our communications with you
11. to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at https://ico.org.uk/, or telephone 0303 123 1113.

7. Your personal data will not be sent overseas

8. Your personal data will not be used for any automated decision making.

9. Your personal data will be stored in a secure Government IT system.

10. More information

For more information on how Ofgem processes your data, click on the link to our "Ofgem privacy promise".