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Dear Akshay

Open letter: future systems and network regulation

SSE Group ('SSE') welcomes the opportunity to respond to the issues raised in this open letter. They are of vital importance for both network owners and investors in connecting infrastructure given the central role that network investment and development will have in achieving the UK's legally binding 2050 net zero objective.

Please note that SSE's transmission and distribution businesses (SSENT and SSEND) will also submit separate responses.

About SSE

SSE is a FTSE-30 company headquartered in Perth, Scotland. We are a leading generator of renewable electricity and one of the largest electricity network companies in the UK. We develop, own and operate low carbon infrastructure to support the low-carbon transition. This includes onshore and offshore wind, hydro power, electricity transmission and distribution grids,¹ and efficient gas-fired generation, alongside providing energy products and services for businesses, with interests across the UK and Ireland, Europe, North America and Asia Pacific.

SSE announced in November 2021, a [£12.5bn Net Zero Acceleration programme](#) which will see the company expand on its ambition to be the UK's clean energy champion, creating 1,000 jobs a year to 2025. This programme will see SSE building the world's largest offshore wind farm at Dogger Bank. We will also deliver over 20% of the necessary upcoming electricity networks investment in the UK to connect renewable energy and enable electrification of heat and transport, alongside investment in critical technologies like carbon, capture and storage, hydrogen, solar and pumped storage hydro.

¹ Please note, SSENT Transmission and SSENT Distribution have also submitted responses

Our investment in Great Britain alone could exceed £24bn by 2030. Independent analysis by PwC has found SSE contributed £5.8bn to UK GDP in 2021/22, supporting more than 45,000 jobs both directly and indirectly. It also found that for every £1 earned by SSE in adjusted operating profit in 2021/22, it made an economic contribution of £4 to the combined UK and Irish economies. Full details can be found [here](#).

Investment by SSE and across the energy sector will support economic growth and create jobs in all regions of the UK. This will not only help to deliver economic growth but also deliver on the Government's levelling up ambitions, particularly as new industries are developed to ensure our energy security and decarbonise industrial clusters in areas outside of the southeast of England.

Key Points:

- We do not believe that the issues identified by Ofgem provide a compelling case for an alternative to RIIO – we therefore support Option 1.
- Moreover, any move away from RIIO would only add to the already considerable national and international causes of uncertainty for investors that are affecting investment risk perceptions.
- We do, however, support identifying improvements to the RIIO process – this will help provide the certainty and clarity of approach to deliver increasingly certain network investment requirements, which in turn will help ensure that 2030 targets and beyond are met.
- The next stage of this review should focus on potential improvements to make RIIO less resource-intensive, as well as simplifying and quickening the process, including the speed of Ofgem's decision making and approach to anticipatory investment.
- RIIO as a process is flexible enough to account for differences in networks and between gas and power.

I trust that you find the comments in this letter and the attached appendix helpful; we look forward to engaging further with Ofgem as work in this area progresses. In the meantime, please do not hesitate to contact me should you require clarification regarding our views.

Yours sincerely

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Group Regulation Strategy Manager

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Appendix 1

Q1: Do you have any views on the strategic issues we will face in the development of the next price control review process?

The open letter captures a range of issues – which will differ in their impact from sector to sector - that provide relevant context for future network development and price controls. We would also draw attention to other developments, which include:

- Digitalisation and cyber security.
- The interaction between the DSO and FSO functions.
- The potential impact of REMA on network charging.
- Network resilience to ensure grid infrastructure can withstand events such as extreme heat, cold, storms and flooding.
- Maximising the benefits that both monopoly networks and IDNOs can bring to a whole systems approach.

However, putting to one side the nature of direct strategic issues for networks regulation, it is crucial that Ofgem's work on the next price control review process is seen in a broader context:

- The wider benefits of network investment for the UK economy – Ofgem itself has suggested that onshore network investment to meet net zero could directly support an additional 50,000–130,000 FTE jobs by 2050, contributing an estimated £4 -11bn of GVA to the UK economy.²
- As a key enabler for delivery of network infrastructure crucial to facilitating delivery of government energy policy targets in areas such as offshore wind, hydrogen and CCUS by 2030.³
- Facilitating enhanced renewables targets that will help:
 - protect against international energy price volatility; and
 - GB become a net exporter of electricity five years earlier, from 2033 to 2028, helping deliver on the ambition for the UK to become a net exporter of energy by 2040.

As work on the next network price control arrangements progresses, the question for Ofgem is clear: will any move from the tried and successful approach of RIIO itself amount to a costly cause of uncertainty that hinders delivery in these areas at precisely the moment when we require an unprecedented pace and level of network investment?

² [Electricity Networks Strategic Framework: Enabling a secure, net zero energy system \(publishing.service.gov.uk\)](https://publishing.service.gov.uk)

³ [British energy security strategy - GOV.UK \(www.gov.uk\)](https://www.gov.uk)

In considering this question, it is important to consider the current economic and political context, both national and international, and its role as a cause of significant uncertainty for investors. A stable and certain RIIO framework will help to mitigate investor concern in two key respects:

- Minimising the impact on the cost of capital – an extra 1 percentage point on the cost of capital for low-carbon generation would add £45bn to overall costs by 2050 according to a recent report from LCP.⁴
- Companies will have increasing confidence to build the supply chain needed to deliver the infrastructure at a time of global competition as other countries and markets embark on their decarbonisation journeys.

It is with the need for certainty in mind that SSE supports improvements to the current RIIO process as the most appropriate way forward.

Q2: Do you have any views on the case for change we have outlined?

We do not believe a case for change has been made. Indeed, we note that the open letter only uses the word 'may' in this context.

However, while we subsequently support the retention of RIIO as an approach, there is merit in considering how it should evolve and improve to meet the strategic challenges outlined in the letter.

As a headline observation, whilst network price controls are complicated and time-consuming, the current RIIO process is overly lengthy and resource intensive for all concerned: Ofgem, network companies and connecting customers.

- The next stage of Ofgem's work should consider how to streamline the RIIO timetable and make it shorter, including the processes associated with Business Plans, re-openers and uncertainty mechanisms.
- A further area of improvement and simplification may be the potential benefits for network users from a more harmonised approach to DNO business plan reporting, which could make it easier for customers to engage with the process.
- Network Operators should be recognised for the time and resources they put into stakeholder engagement. However, for some stakeholders the resources required to engage fully might prove a disadvantage. Therefore, more targeted engagement, focussed on specific stakeholder groups, might increase involvement and result in a more accurate assessment of customer needs.

It is also important to remember that as the central figure in the price control process, Ofgem should consider improvements to the way it carries out its duties. In order that network

⁴ <https://www.sse.com/sustainability/REMA/LCPBESSImpactsandImplications>

investment and system development can proceed at pace to meet the needs of customers and facilitate broader energy policy, Ofgem must commit to ensuring the following:

- the necessary resource allocation and issues prioritisation; and
- internal processes that can deliver agile and coherent decision making at speed - from working level to the Board and GEMA.

Q3: Do you have views on whether the changes to the electricity or gas sectors mean we should consider alternatives to the approach taken in the RIIO-2 price control?

Now is not the time to consider alternative approaches - the case has yet to be made that the RIIO process is not flexible enough to adapt to the needs of a changing network. This is an important point given the scale of investment required in both networks and other connecting infrastructure to deliver net zero; industry and customers would be better served by certainty over the RIIO-3 timetable being known and agreed as soon as possible.

Such a move would provide welcome certainty to network companies, help avoid the issue of stop/start investment cycles and allow them to begin developing their business plans. This is a vital consideration in the case of transmission network investment given the increasing certainty over future network needs through the Holistic Network Design and Networks Options Assessment processes.

At distribution level, the situation is different. There remains significant uncertainty around if and how the current RIIO-ED2 framework will drive strategic investment. This is a key consideration and we urge Ofgem to concentrate on showing the same mindset it has displayed in transmission (as described above) in RIIO-ED2 and ahead of RIIO-3.

Clarity that RIIO will remain the approach for the next price controls would also provide investors with a long-term signal that other arrangements may apply in the future. These alternatives may consider the need for a different sectoral treatment based on issues such as certainty of demand and investment requirements, for example, there may be a future in which the approach towards gas networks diverges from that taken to electricity networks, for which the future needs case is clearer.

Q4: Are there any broad frameworks or options that you think we should consider, including variants and alternatives to those we set out?

For the reasons described in response to the questions above, we support Option 1. However, it is important to ensure that future RIIO price controls recognise the need to evolve in several ways.

In addition to the suggested improvements already mentioned, network regulation policy must be seen in a broader context. With regards to network investment, for example, rather than

focussing on short-term costs to consumers, Ofgem must ensure its cost/benefit analysis reflects a proper balance with the long-term value to customers (of network investment).

In doing so, Ofgem must be able to demonstrate not only how it has balanced these considerations. Key will be clarity and objectivity over the way in which Ofgem assesses the long-term gains for consumers, which must also include wider societal and economic benefits.

Whether such an approach is possible given Ofgem's current objectives and statutory duties is not clear. Nevertheless, we would welcome clarity on this point.