

ENA Response to Ofgem RII0-3 Sector Specific Methodology Consultation

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Energy Networks Association

About ENA

Energy Networks Association represents the companies which operate the electricity wires, gas pipes and energy system in the UK and Ireland.

We help our members meet the challenge of delivering electricity and gas to communities across the UK and Ireland safely, sustainably and reliably.

- Create smart grids, ensuring our networks are prepared for more renewable generation than ever before, decentralised sources of energy, more electric vehicles and heat pumps. Learn more about our Open Networks programme.
- Create the world's first zero-carbon gas grid, by speeding up the switch from natural gas to hydrogen. Learn more about our Gas Goes Green programme.
- Innovate. We're supporting over £450m of innovation investment to support customers, connections and more.
- Be safe. We bring our industry together to improve safety and reduce workforce and public injury.
- Manage our networks. We support our members manage, create and maintain a vast array of electricity codes, standards and regulations which supports the day-to-day operation of our energy networks.

Together, the energy networks are [keeping your energy flowing](#), supporting our economy through [jobs](#) and investment and [preparing for a net zero future](#).

Our members and associates

Our members include every major electricity and gas network operator in the UK and Ireland, independent operators, the Electricity System Operator (ESO) which operates the electricity transmission system in Great Britain and National Gas which owns and operates the gas transmission system in Great Britain. Our affiliate membership also includes companies with an interest in energy, including Heathrow Airport and Network Rail¹.

ENA members



ENA associates

- | | | |
|----------------------------|------------------------------|----------------|
| • Chubu | • Heathrow Airport | • Network Rail |
| • EEA | • Jersey Electricity | • TEPCO |
| • Guernsey Electricity Ltd | • Manx Electricity Authority | |

Introduction

Energy Networks Association (ENA) represents the companies that operate and maintain the gas and electricity network infrastructure in the UK and Ireland.

Serving over 30 million homes and businesses in every part of the country, they are responsible for the transmission (long-distance, high pressure/voltage) and distribution (short-distance, lower pressure/voltage) network of 'wires and pipes' that keep our lights on, our homes warm and our businesses running.

In summary:

- The electricity network in the UK and Ireland comprises of around 1,000,000km of cables – enough to go around the world 25 times¹.
- The gas network consists of 300,000km of pipelines, with 85% of homes in Great Britain relying on the energy they supply for their heating, hot water and cooking².
- Energy network companies' assets in Great Britain alone are valued at £64bn.
- Network companies already directly employ around 36,000 people across Great Britain and support the employment of 1,200 apprentices³, providing direct and indirect jobs in supply chains helping support long-term, good quality, high-skilled employment in the communities they serve.

Background

ENA welcome the opportunity to respond on behalf of its gas distribution (GD), gas transmission (GT), electricity transmission (ET) and electricity distribution network operator (DNO) members to this consultation on the methodology that Ofgem will apply for setting the RIIO-3 price controls for the GD, GT and ET networks that will run from April 2026.

This response sets out a collective view of some key common principles for RIIO-3, detailed insights and areas of focus for ENA representing the gas and electricity networks industry. Our members operate long-term asset businesses so it is clear to them that meeting consumer needs and enabling government policy is at the heart of how they succeed. They consider that this needs to be facilitated by the RIIO-3 framework.

This response is formed of three parts:

- (i) **Strategic Overview** – in which we highlight a number of areas that go wider than this Price Review and encompasses the wider statutory and regulatory policy framework within which networks operate. Together these externalities will, or have potential to, impact on the deliverability of RIIO3 objectives and outcomes and the national strategy it forms part of.
- (ii) **Overview Document** – our response to the proposals and related questions on cross-sector areas.
- (iii) **Finance Annex** – our response to the proposals and related questions on cross-sector areas.

We have aligned our response to the sections of the consultation documents for ease of your consideration.

¹ Energy Networks Association website, 'Energy Networks Explained', retrieved October 2022.

² Ibid

³ Ibid

STRATEGIC OVERVIEW

Networks are an essential enabler of the energy transition that will drive clean economic growth

Energy networks are at the heart of the UK's plans to continue the transformation of our energy system, driven by the need to decarbonise our economy on the journey to Net Zero, ensure energy security, protect against climate change and improve affordability for consumers.

Significant progress has already been made in the necessary upgrade and expansion of our networks enabling increasing levels and greater diversification of clean indigenous affordable energy supplies and the rapid take-up of clean technologies for heating, transport and industry.

But continuing to deliver this transformation and the economic growth it drives will require a step-change in the scale of investment and pace of delivery. This will require adopting new and innovative approaches to delivery and a recognition that network companies will undertake transformational change in terms of their size and capabilities. This includes the recruitment and training of the workforce, greater innovation in both development and utilisation of new technologies and approaches employed needed to deliver this transformation. At the same time we must recognise the global and macro-economic overlay that will impact on supply chains resulting in upward pressures on and more volatile costs.

Meeting these challenges and capturing the benefits for consumers and wider society that we know will be realised requires government, regulators and networks working together with wider stakeholders to create the conditions that will enable efficient and timely delivery of energy network infrastructure and its efficient ongoing operation and maintenance. Achieving this necessarily goes wider than this Price Review and encompasses the wider statutory and regulatory policy framework within which networks operate. Together these externalities will, or have potential to, impact on the deliverability of RIIO3 objectives and outcomes and the national strategy it forms part of. The following comments on a number of these areas and regulatory approach by Ofgem.

RIIO3 decisions by the regulator

The RIIO-3 price controls and the decisions made as part of them by Ofgem will have a major influence on our future energy system and the wider economy that it serves. It is therefore imperative that this price review and methodologies are not considered in isolation, but as part of government's wider strategy for delivering investment, clean growth and meeting consumer needs.

The approach adopted for the regulatory framework under RIIO-3, not only needs to evolve in response to the experience and lessons learnt under RIIO-2, but to take into account and be consistent with wider energy and economic policy and its objectives. Central to this is ensuring that networks are able to continue to attract the significant levels of investment needed over the next decade and beyond. For example, we encourage Ofgem to streamline the regulatory approvals process, including the way 'need' is assessed and confirmed, building on ASTI consistent with network planning through the CSNP and SSEP to enable timely investment.

We urge Ofgem to keep this central to any considerations within the context of this consultation and consider asymmetries of risk that may attach to particular approaches.

We also encourage Ofgem, when coming to decisions on the methodology, to carefully consider the interactions and relationships between the various aspects of the RIIO package. Despite the SSMC having a limited focus on Community Benefits, we would like to draw Ofgem's attention to the need to clarify the policy

funding options and regulatory reporting to implement the government's proposed community benefit guidance efficiently and effectively.

Attracting investment – networks need to be investable

- All energy sectors face heightened risks relative to RIIO-2. These risks will be reflected in investors' perception of the risks associated with investing in energy networks and therefore in the financing costs that networks will bear. For electricity transmission networks, the scale and pace of investment programmes in RIIO-3 in support of the changes needed to achieve net zero will be unprecedented. The sheer number and scale of projects and programmes, and the associated series of delivery challenges, compressed outages, planning and consenting challenges, and reputational challenges will be at a scale never experienced before. Gas networks will need to maintain safe and reliable gas supplies for as long as the network is energised and customers are reliant upon it. They will need to do this against the backdrop of asset stranding risk, and the potential challenges of transforming their assets to serve future alternative gas/heating vectors over an uncertain proportion of their network. All networks face further risk increases due to supply chain, inflationary and workforce availability pressures, increasing threats to the resilience and reliability of their networks arising from the effects of climate change and increasing threats such as cyber security. All these factors will further increase financing costs for RIIO-3 beyond the increases that will arise due to changes in the macroeconomic environment.
- Ofgem is right to introduce the concept of investability into the RIIO-3 framework, but it is equally important for gas networks as it is for electricity networks. Investability assessment must feature heavily in Ofgem's design of the RIIO-3 financial framework and must be applied to existing and new debt and equity. For cost of equity allowances, market evidence shows that rolling forward Ofgem's RIIO-2 approach would determine a range and point estimate that is too low – such a price control would not be investable. Ofgem will need to make adjustments to its RIIO-2 Capital Asset Pricing Model (CAPM) parameter estimates to reflect latest market conditions and new evidence. The finance annex to this response summarises this analysis and evidence.

Incentive regulation central to any approach

The current regulatory regime, with its focus on ex-ante incentive regulation, has delivered, and continues to deliver, transformational change in GB networks that customers have benefited from. Price control design has evolved to address changing needs, and regulators from around the world have looked and continue to look to GB as an example of best practice regulation.

It's important the regulatory framework continues to deliver for customers. Different sectors face specific challenges and will need to evolve in different ways and to different extents to continue to meet customers' needs. In recognition, some aspects of the current approach to regulating networks will need to evolve in response to the change in scale of some activities, to the change in market conditions and to remove acknowledged shortcomings of the current regulatory approach. Incentive regulation has to remain central to any approach.

Resilience and reliability challenges

Climate change already impacts in many ways, including increased frequency and severity of storms, floods and record temperatures being seen more regularly. These impacts can be expected to worsen with

consequences for the capacity and operation of network plant and equipment, with the transition to net zero increasing the energy system's vulnerability to these risks.

Ofgem and wider industry need to take a consistent position on environmental parameters, particularly cost of carbon, which must be aligned to ensure consistency. Ofgem should, consistent with its Net Zero duty, take a long-term view of consumers' environmental needs and enable the investment needed to mitigate and protect future generations from the harmful impacts of climate change.

There is also increasing risk of hostile actor cyber-attack as the networks evolve towards more widespread automation, especially at lower voltages and pressure tiers, with greater connectivity to the network and control and communication of generation and smart demand customers. It is essential that investment and opportunities to develop secure operation telecommunications systems is made available.

Ofgem should provide clarity on its expectations for resilience standards to ensure sufficient investment is made in existing and new network assets to maintain reliability and resilience across our networks for both existing and future customers. Ongoing work across the networks and with government in understanding the threat mechanisms needs to be supported with improvements in network security, both cyber and physical, if we are to ensure network resilience from all forms of threat. Given the unpredictable frequency and impacts of severe weather events sufficient flexibility is needed in the price control.

Policy approaches may also introduce increased risk for energy security and resilience, and it will be imperative that careful consideration is given to any reworking or removal of existing policies. For example, the current Competition and Pathfinder processes, introducing new 3rd parties to the operation of transmission infrastructure, in particular Ofgem's early competition policy development.

Network Connections and wider reforms

Connections will be a major factor in the economic and efficient delivery of network infrastructure. The ESO TEC register currently shows well in excess of 400GW of contracted and installed generation and storage, with the contracted pipeline continuing to grow on a daily basis with connection dates ranging from 2025-2037. The ESO's view is that only 30% of the projects currently contracted to connect to the transmission network will be realised.

Connections reform is underway and is expected to speed up connections, but more fundamental changes will be needed. The regulatory regime needs to be able to adapt as the connections regime continues to evolve to enable networks to invest in capacity early, consistent with removing barriers to low carbon investment and meeting our targets. Approaches adopted under RIIO-3 will be a vital building block in the success of connection reforms.

More widely networks will need to support and adapt to a significant level of change introduced through the remainder of the RIIO-2 period and throughout RIIO-3. This includes major reforms across a broad range of areas such as the energy industry codes and their governance arrangements, charging, electricity markets, the design and planning of the whole electricity system, as well as the introduction of competitively appointed transmission owners. Networks and investors will need Ofgem to provide certainty at the earliest point and ensure these changes are considered in the RIIO-3 regulatory frameworks. Networks with their strong track record of delivery skills, experience and expertise is available to support Ofgem in delivering this change which we urge Ofgem to take advantage of.

Planning Consents & Land Rights barriers must be addressed

We welcome the Government's Transmission Acceleration Action Plan (TAAP) and the suite of initiatives it sets out that together will halve the overall build timeline for electricity network infrastructure, being central to meeting Net Zero, long-term energy security, reducing bills and realising associated economic benefits.

Crucially the Government's Plan also recognises the need to review the current statutory framework and associated processes for securing and renegotiating necessary land rights and consents, particularly at lower voltages and commits to publishing its response to the call for evidence on land rights and consents in spring that will set out next steps and agreed policy measures. It is important this results in greater coherence with distribution networks and related improvements no less than those under the TAAP.

In parallel ENA has prepared a 'Nine-Point Plan'⁴, detailing those areas of the current system that require procedural and systemic reform. The majority of the reforms we are proposing can be delivered at pace and should be taken forward with urgency.

This is an area that must not be overlooked, so not allowed to counter the centralised approach to network planning through the CSNP and SSEP and Ofgem's efforts to streamline the regulatory approvals process and evolve its approach to strategic investment ahead of need, ensuring networks are ready to meet anticipated demand.

Applicability of this consultation and decisions to DNOs

Sufficient consideration must be given to DNO input to this process whilst acknowledging that the framework for ED3 will be considered as open and developed under its own separate process unfettered by decisions made for RIIO-3. Ofgem needs to set price controls based on sector specific and individual licensees' circumstances and their specific merits, without undue precedent being set from other parts of the process. This was not fully achieved in RIIO-2 where approaches developed for gas distribution were transposed across to electricity distribution and found to be suboptimal.

Together we must grasp this opportunity

The RIIO-3 Price Controls and the decisions made as part of them by Ofgem will have a major influence on our future energy system and the wider economy that it serves. In modern times there has never been greater need than now to create the conditions that will deliver the investment needed to drive clean economic growth with opportunities captured and exploited fully for the benefit consumers, including the vulnerable and wider society. Together we must grasp this opportunity.

⁴ 'Our Common Sense Plan for Planning': Land Rights and Consents for electricity infrastructure, proposals for reform from Energy Networks Association December 2023 <https://www.energynetworks.org/publications/common-sense-planning-plan>

Overview Document Questions

Future of Gas

OVQ1. Do you agree with our proposal for how RIIO-3 should interact with the Hydrogen Transport Business Model?

Ofgem's intention that costs for new hydrogen infrastructure should not be funded through RIIO-3 but instead through the Hydrogen Transport Business Model is recognised. The teams at ENA, National Gas and the four GDNs have been closely involved in the development of the Hydrogen Transport Business Model and we have been grateful for the collaborative approach that DESNZ and Ofgem have taken to this.

As we have stressed throughout the process for design of these business models, they need to be delivered at pace, given the urgent nature of developing hydrogen transport and storage infrastructure in order to meet key decarbonisation goals – particularly the goals to develop 10GW of hydrogen by 2030 and to decarbonise the power system by 2035.

This is even truer in the context of the Hydrogen Transport Business Model being the only way to fund new hydrogen infrastructure, rather than through RIIO-3. This means that continued pace on the design of these business models is of upmost importance. The industry has seen the pace that DESNZ has been trying to move at and this has been welcome, particularly outlining the approach to the first allocation round prior to the finalisation of the business model itself. This pace must be kept up and accelerated if and where possible.

In respect of how RIIO-3 should interact with the Hydrogen Transport Business Model, there are three important points we wish to highlight.

- a) Porting from one RAB model to another
 - Ofgem's proposals for funding to be directed through the Hydrogen Transport Business Model means that the process which is designed for porting from one RAB model to another in the future (should this take place) will become critically important. The regulated networks will need to have a line of sight as to the potential timing of this and understanding of how any process could work in the future.
- b) Funding of development expenditure
 - Ofgem's intended approach to funding of development expenditure for hydrogen infrastructure will be particularly important given the status of a number of relevant hydrogen projects at the moment, and the industry will welcome an update as early as possible in the Q2 2024 timeframe you have set out.
 - Use-It-Or-Lose-IT (UIOLI) allowances are currently a really important tool that the gas networks have been able to use during RIIO-2 to drive forward development expenditure on projects which will be key to the delivery of net zero and value to consumers. Clarity of the funding pot and a relatively straightforward and flexible process for using it has driven a significant amount of value on important projects in RIIO-2.
 - These UIOLI allowances in RIIO-2 were put in place in recognition of a funding gap for the early development work that Network Licensees have needed to do on projects that then may have been put forward for re-openers. It is important that Ofgem explicitly acknowledges that this funding gap still exists in RIIO-3 and that allowances of a similar style to the UIOLI allowances used in RIIO-2 will need to remain in place.

- c) Funding repurposing costs
- Ofgem has mentioned that the primary intention is to fund repurposing costs through the Hydrogen Transport Business Model, but there could be a route to fund these costs through RIIO-3 if evidence of benefit to consumers is clearly shown.
 - For this to work effectively, the gas networks need to understand the level of evidence required to fund repurposing costs and Ofgem's expectations in this regard.
 - From the collective experience of the gas networks in hydrogen projects so far, it is generally difficult to discriminate between repurposing and new build as project designs tend to include an element of both. This will be important for Ofgem to factor in.

OVQ2. Are there any additional activities relating to the development of hydrogen transport infrastructure, or repurposing of natural gas assets, that you think should be funded through RIIO-3, and if so, why do you think this is justified?

While the actual development of hydrogen transport projects (and the funding route for this) is rightly the focus, it's important not to forget the array of wider activities that need to be undertaken by the networks in order to make hydrogen a reality. These other preparatory activities will include (but will not be limited to): development of commercial frameworks, development of markets, operational readiness activities and other activities.

One example of this is the preparatory work the NESO will expect the gas networks to undertake in order to prepare for Regional Energy System Planners (RESPs). This type of wider work will need to be supported through RIIO-3 funding in some way.

OVQ3. Do you agree with the proposal that network costs relating to hydrogen blending at both distribution and transmission level should be included in RIIO-3 net zero related UMs? If so, which mechanism do you think is most appropriate for these costs and why?

The strategic policy decision made on blending at distribution level by DESNZ at the end of 2023 has provided a clear and positive direction of travel for the delivery of blending.

However, there still remain a number of uncertainties – including:

- HSE review of the safety case and amendments to the Gas Safety (Management) Regulations (GS(M)R) to enable blending. The timeframe for this remains highly uncertain but will largely dictate when and how significant networks costs will be incurred.
- The development of the business model to support blending. DESNZ has indicated in the blending policy decision that the Hydrogen Production Business Model will be the primary mechanism to provide subsidy support for blending, but this is still at very early stages. The design work sitting behind this will take time and the interaction with the process for allocation of hydrogen production funding through the Hydrogen Allocation Rounds (HARs) will need to be carefully thought through.
- The timeline and process for a similar policy decision for blending at transmission level. In the absence of a clear timeline for this from DESNZ it is difficult to factor in how and when blending at transmission level could be implemented, and therefore what that would mean for network costs during the RIIO-3 period (across both distribution and transmission).

For these reasons, network costs cannot yet be accurately forecasted and so using UMs to fund blending expenditure in the RIIO-3 timeframe is appropriate.

It is hugely important though that the actual UMs themselves can be agile and funding can be unlocked at pace to deliver blending, particularly given the strategic imperative of blending as a means to unlock the development of hydrogen markets and to deliver Net Zero. The ongoing uncertainty around pathways for decarbonisation of the energy system has inevitably meant that UMs have become a greater part of the price controls, but this must not be at the expense of a regulatory framework which is able to move swiftly to unlock funding for key projects for the benefit of consumers.

As an example, UIOLI allowances (mentioned briefly in our response to the consultation question on the interaction between RIIO-3 and the Hydrogen Transport Business Models) are a great example of where regulatory allowances can be made simple and agile to deliver consumer value swiftly. The networks know how to use UIOLI and it is straightforward to access funding, which has led to value for consumers being delivered sooner than it would have otherwise.

In relation to blending, UMs used to fund network costs must have that same level of agility and pace in delivery.

OVQ4. What are your views on the proposal of using the GD specific Heat Policy re-opener, the RIIO-3 net zero related UMs, or a mixture of both to fund network costs incurred as a result of the government's 2026 decision on hydrogen for heating (where RIIO is deemed to be the most appropriate funding mechanism for these costs)?

As the decision date approaches, and in the event that it becomes clearer that the decision will necessitate spend by the gas networks, there needs to be greater clarity from Ofgem on the intended mix of funding mechanisms to enable this and how this will play out in practice.

OVQ5. What are your views on our proposal to not enable funding for further evidence relating to repurposing the existing network for hydrogen heating ahead of government's decision on hydrogen heating in 2026?

Our response to this question covers our response to both this and the previous question as a collective.

In order for government to make a fully informed decision in 2026 on the decarbonisation of heat and hydrogen's role in it, there has been a huge programme of evidence-gathering work conducted by the networks, government and other stakeholders, largely through the RIIO-2 period.

Given the focus of these activities on the 2026 decision, there is a logic to suggest that regulatory funding for these should be limited to pre-2026 (and therefore limited to RIIO-2). However, there are a number of reasons why this would constitute a high-risk approach and we believe it prudent for Net Zero pre-construction and small projects re-opener to continue in GD3 for the following reasons:

- It is unclear what the 2026 decision itself will entail. DESNZ have yet to say what the 'shape' of the decision will be – whether it is a simple yes/no for hydrogen's use in heat or a more nuanced decision

around how, where and when hydrogen and other technologies should be used for heat decarbonisation. The decision itself may not be clearcut and may necessitate further work to build the evidence base, or it may become apparent over time that further evidence is needed to make a clear decision.

- There is a chance that the 2026 date could change. 2026 itself is not a legislative date, it is simply a strategic intention put in place by the current government which any government formed as a result of the next election could choose to change. It is important that Ofgem remains mindful of this in setting the parameters for RIIO-3 in relation to heat policy and builds in a degree of flexibility if circumstances change.
- The innovation that has taken place as a result of the focus on evidence-gathering for the heat policy decision shouldn't stop as a result of a decision being made. The 2026 decision timeframe has provided a clear sense of direction behind these heat-related hydrogen innovation activities, innovation in hydrogen should and will carry on, in the same way that innovation in natural gas always has, and appropriate incentive and funding frameworks should remain in place to facilitate this. If this innovation is halted in any way then this would likely lead to redeployment of resources elsewhere and loss of expertise.

For these reasons, we believe there should be mechanisms included in RIIO-3 to enable ongoing evidence-gathering work in relation to hydrogen's role in heat to be funded.

OVQ6. Should RIIO-3 help to manage future gas network decommissioning costs? If so, do you have views on what these costs could be and what mechanisms should be used, including for anticipatory funding?

Given the uncertainty around future decarbonisation of the energy system, it is right to prepare for future scenarios which include a degree of decommissioning. That said, we do not expect any actual decommissioning to need to take place across the natural gas network in the RIIO-3 timeframe and therefore would not anticipate the need for a mechanism to fund this.

Instead, what we consider will need to be progressed during the RIIO-3 timeframe is preparatory work to better understand where and when decommissioning may arise. The prospect of decommissioning raises a series of fundamental and complex issues which need analysing in much greater detail than the industry has to date. This includes (but is not limited to) issues around:

- Understanding the technicalities of what would need to take place to decommission parts of the network, including how it would be delivered in practice and how to maintain system resilience during and after.
- Consideration of how to finance decommissioning activities, the impact on consumer bills and significant questions about how decommissioning is paid for and by who. This includes major questions around who pays for operation and maintenance of the remaining natural gas network if and as the customer base begins to decline, including questions around intergenerational fairness alongside recovery of investments made by networks.
- The impact of decommissioning on different demographics of consumers and in different regions.
- Legal requirements and any changes to the regulatory and legal frameworks that would be needed to enable decommissioning.

- The whole system impact of decommissioning, particularly understanding what impact decommissioning could have on the electricity networks and what would need to be delivered on the electricity side to make decommissioning a locality or a region possible.

This is not a trivial amount of work and is absolutely critical to ensure the sector is prepared for any decommissioning activities which may arise. Ofgem should ensure there is a pot of funding in RIIO-3, ideally through UIOLI allowances, to look at these issues in more detail. If this preparatory work uncovers any significant pieces of work or investment which need to be delivered in the RIIO-3 timeframe, a net zero related reopener should be used for recovery of these costs.

Funding for any of these types of activities has to date naturally been funded by natural gas consumers through the gas network price controls. As the energy system changes there is an open question about whether this model will remain fit for purpose.

Role of Scenarios and Planning Pathways

OVQ7. Do you agree with the proposal to use the FES framework for selecting the RIIO-3 scenarios?

It is important to distinguish between sectors and the purpose of the FES scenarios. Whilst we agree with the use of the FES as the basis of the RIIO-3 scenarios, these combined with individual network owner's knowledge of their own systems as to what is required to deliver net zero, will provide a good basis on which to plan **additional** investment for RIIO-3. It is also key to note the importance of local knowledge and how this is taken into account, in particular around use of DFES and different local authority targets set through LAEPs and broader Scottish Government targets for example. However, the use of scenarios does not remove all uncertainty so mechanisms for managing uncertainties remain important, as recognised by Ofgem in its framework proposal.

Our Gas Network Members are of the view that for gas networks the FES frameworks are not an appropriate scenario for determining **current investment or future investment necessary to maintain the safety and reliability** of the gas networks. Maintaining safety and reliability within gas networks is the absolute minimum requirement and investments in RIIO-3 should be underpinned with this underlying principle. Gas networks have to maintain safety for everyone (whether they are gas customer or not) whilst there are customers on these networks, and the FES scenarios do not identify when the last customers are expected to leave a section of the network, and so do not identify when it can be de-energised.

Any decisions on anticipated de-energisation should only be made when there is clear evidence that customers are willing to migrate away from gas networks in significant numbers in a sustainable manner.

OVQ8. Do you agree with the proposal to use FES Leading the Way as the planning scenario for ET in RIIO-3?

Where appropriate, we see the FES 'Leading the Way' scenario as a good and ambitious, view of the development of the energy system required to meet Net Zero and appreciate the clarity Ofgem is providing in stating this at this stage in the process. In addition to the FES, networks will draw on a range of information, including commercial, in the development of their plans. This will not only more comprehensively evidence the investment need, but ensure plans are robust against a range of possible future outcomes and offer a level of flexibility to meet future challenges.

OVQ9. Do you agree with the proposal to use two FES planning pathways for the gas networks, i.e. Leading the Way and Falling Short as the additional common conservative scenario?

As set out in the response to OVQ7 our **Gas Network Members** are of the view that investment in the gas networks is primarily driven by the need to maintain safety and resilience of the gas network, therefore, Gas networks should use the most appropriate forecasts to ensure system security during the RIIO-3 period and beyond, consequently business plans will need to ensure that all legal, licence and regulatory requirements are met. As such they do not consider the FES scenarios to have a material impact on investment decisions for gas networks in RIIO-3.

We highlight the linkage to Ofgem's decision on the future of local energy institutions and governance (15 November '23) which included the introduction of Regional Energy Strategic Planners (RESPs) to ensure there is appropriate accountability and effective coordination for strategic planning at a sub-national level. The National Energy System Operator (NESO) will be the delivery body for this role. Given the cross-vector scope of the RESP to both gas and electricity network planning it is important to highlight this role.

RESPs will be responsible for the development of strategic energy plans incorporating technical coordination and place-based coordination at the regional level that are cross-vector (including gas and electricity networks) and fully consider regional priorities. This is intended to provide critical planning assumptions to inform system and network needs. The RESPs will produce regional plans that will aggregate top-down national targets and scenarios with local and regional insights. The RESPs will be responsible for enabling effective participation and oversight via democratically aligned governance mechanisms ensuring that individual network plans are aligned to the strategic plan, a key task of the RESPs will be to undertake the technical coordination of plans.

In developing a strategic plan, the RESPs are expected to develop an aggregated regional view using a wide range of inputs – including national forecasts, electricity and gas network operator data, heat networks and local plans (e.g. LAEP or LHEES). The inputs should be cross-vector responding to the evolution of policy (e.g. CCUS and Hydrogen) where this influences network infrastructure planning. There are clearly connectivity and interdependencies between RESP and the intention to develop gas planning scenarios outlined in this consultation. It is essential that these approaches are aligned with sufficient accountability and coordination across gas and electricity strategic and whole system planning.

It is therefore crucial that no decisions are made in isolation on gas planning scenarios in isolation which could set precedents on this early stage of RESP detailed design, which will progress throughout 2024.

OVQ10. Is Falling Short the most appropriate common conservative planning scenario to be used for the gas networks? Or is a common gas network developed scenario more appropriate?

Please see our previous responses to OVQ7 & OVQ9 which discuss our **Gas Network Members'** view of how the use of any of the FES is inappropriate for planning ongoing investment in Gas Networks.

OVQ11. Is it feasible for all network companies to initially plan against FES 2023 before updating business plans in line with FES 2024, as proposed?

The transmission Central Strategic Network Plan 2 will be based on FES 2023 and inform all strategic reinforcements indicated as required by the NESO. For consistency with the outcomes of this, it is reasonable and consistent with our previous comments where appropriate, to develop the RIIO-3 business plans using the same FES but recognising the availability of the FES 2024 ahead of the final submission of the RIIO-3 plans

only where possible, these could be tested using the updated FES. However, as FES 2023 and 2024 for the RIIO-3 5-year price control period should not be substantively different, we see limited gain in carrying out a full update to plans with it only introducing asymmetric risk in the process. Uncertainty mechanisms are designed to account for external factors that impact on plans and are a more efficient process in comparison to reworking base plans.

To support this process we ask that Ofgem ensures that its publications, including the Business Plan Guidance and SSM Decision are not delayed, as well as ensuring that the ESO's publication of FES2024 is not delayed (including agreement with Ofgem on the treatment of the new FES2024 framework), both of which would put the timelines for business plan development at significant risk. Timely publication of guidance is a crucial enabler of compliant and complete RIIO-3 price control submissions.

Please see our previous responses to OVQ7 & OVQ9 which discuss our **Gas Network Members'** view of how the use of any of the FES is inappropriate for planning ongoing investment in Gas Networks.

Outputs and Incentives

OVQ12. Do you agree with our proposed approach on the role, scope and format of PCDs?

We support targeted use of PCDs, but there should be fewer than there are currently.

We also agree with stakeholder concerns recognised in the SSMC document that evaluative PCDs need to be flexible enough to cope with changes in scope which affect delivery deadlines. Given the highly challenging nature of delivery in RIIO-T3, including the unprecedented connections queue, outage requirements, and lack of supply chain availability, network companies should not be unduly penalised where changing system requirements or other factors outwith the TOs' control lead to programme delays on spend covered by PCDs. This approach was taken on the ASTI projects, recognising that delays may be beyond the reasonable control of a TO, and we propose similar treatment is required when assessing delivery against PCD timelines.

Where a PCD overspend is due to a scope change that creates greater consumer value we do not consider it appropriate for this overspend to be funded by networks, given that this creates a perverse incentive not to seek potential changes to projects in the interest of consumer value. Where a scope change is required, this should be recognised as part of the PCD assessment, and allowances should be adjusted upwards as appropriate, where the overspend is efficiently incurred.

OVQ13. Do you agree with our proposed framework for setting financial incentives? Are there any additional considerations that we should take into account?

In principle incentives should be used where, delivery of an outcome is within a company's control, they support the alignment of interests between consumers and the company and - outcomes are predictable (i.e. taking an action can be predicted to improve performance above a baseline).

We welcome Ofgem's position that there is scope for more incentives that encourage network companies to co-ordinate with each other more effectively to provide better outcomes for consumers. In addition, there is scope for new areas of incentivisation to meet the future challenges faced by the sectors. Compared with RIIO-2, RIIO-3 brings unprecedented levels of reinforcements and connections, associated outages and rising constraint costs with an increasing focus on the resilience of our network to both climate and cyber security.

Incentivisation in these areas therefore presents an opportunity to drive significant consumer benefit, but incentive calibration must reflect the highly challenging delivery environment in RIIO-3, ensuring electricity transmission remains an attractive investment opportunity despite the significant risks and volume of RIIO-3 investment.

Ofgem propose to continue to use historic network company performance to set targets. However, changing circumstance and forward looking challenges, such as the impacts of climate change, mean that historic data may be a poor indicator of future performance. Future challenges include the dramatic increase in the volume of outages and local works required on the electricity system to deliver the strategic NOA/CSNP/CSNP, ASTI/HND projects and already contracted capacity scheduled for delivery during RIIO-3.

OVQ14. Do you agree with our approach to setting reputational incentives? Are there any additional considerations that we should take into account?

We agree with Ofgem's proposal to retain the use of reputational incentives. We see value in additional reporting requirements on key areas of interest to stakeholders, such as the Annual Environmental Plan, an existing RIIO-2 reputational incentive. However, to mitigate the risk of excessive regulatory burden, we would caution the development of further reputational incentives. Where possible, reporting for reputational incentives should align to RRP reporting.

OVQ15. Do you agree with our proposals for bespoke outputs? Are there any additional considerations that we should take into account?

We agree in principle that bespoke outputs should be minimised to ensure that: customers can expect a similar level of service regardless of location, company performance remains comparable, company focus remains on areas of high importance to customers, and to ensure the price control is efficient and manageable. We also agree that bespoke outputs should be used when there is unique requirements and circumstances that affect a particular network, based on their geographical location and needs of its customers, that must be reflected in the price control.

Submission of the business plan should offer companies an opportunity to propose bespoke incentives that have been developed in response to feedback received from stakeholders through the development and dissemination of their proposed plans. We agree that any bespoke proposal should be underpinned by robust analysis that demonstrates value for money to the consumer and have undergone stakeholder scrutiny and welcome Ofgem's proposal to work with network companies and stakeholders on this issue.

OVQ16. Do you agree with our proposal to retain the EAPs and AERs in RIIO-3? Please provide reasonings for your position.

We agree with Ofgem's proposal to retain the EAP and AER, as they allow networks to clearly set out and track the outputs to deliver sustainability goals, such as greenhouse gas reductions and how they are minimising their environmental impact and the environmental risks that arise from the construction and operation of networks. The AER goes hand in hand with the EAP, it allows networks to clearly track and demonstrate to their stakeholders how they are delivering against their EAP, therefore we welcome the proposal to keep both.

We also suggest that Ofgem take the opportunity to consider potential changes to the EAP.

OVQ17. What are your views on the new proposed AER format with Commentary and KPIs?

The proposed AER format is similar to the ED2 equivalent so enhances consistency between distribution and transmission. Whilst there are pros and cons of separation of the 'commentary' from the 'KPIs' the inclusion of tables and charts within a 'commentary' document to give context to the narrative would make it more useful to stakeholders which is its purpose. In coming to a final view Ofgem will wish to consider the risks of misinterpretation associated with either of the proposed two documents being used in isolation.

Generally, we support many of the proposals presented by Ofgem as they are already included in the T2 or ED2 AER guidance and/or KPIs, although some have differed slightly from current guidance. The AER guidance needs to be flexible and to evolve as understanding improves with some metrics, baselines, and targets for low maturity areas not being sufficiently defined at this stage for the purposes of RIIO-3 reporting. It is important to note that it is simply a tool to transparently report progress on a company's EAPs to stakeholders. Therefore, delivery of RIIO-2 EAPs and agreement of RIIO-3 EAPs will inform what is to be reported in the RIIO-3 AERs.

TOs are already working collaboratively on developing common reporting methodologies for several metrics and this will continue for further metrics as T2 progresses. We therefore strongly support consistent reporting methodologies with respect to metrics, whilst recognising that although consistency is important, this does not mean that metrics are comparable across companies or sectors. The number of variables that drive magnitude and type of environmental impacts mean that these can never be normalised out.

We ask Ofgem to consider that annual reporting does not suit all metrics, particularly those associated with projects, which are generally multi-year in duration. For example, the proposed tCO₂e/£m metric for greenhouse gas emissions needs to cover the full life cycle of a project and be considered on a project-by-project basis. It is not appropriate for an annual metric for all works conducted in a certain year because this will depend on volume and type of works being delivered in that year – and collation of data is not necessarily straightforward for defined 12-month periods within a project. Timing of the GHG emissions and timing of spend also further impact this. This is also relevant for biodiversity metrics.

OVQ18. Do you agree with our minded-to position of retaining the reputational incentive on TOs and GDNs for reducing their BCF?

Yes, we agree with the position to retain the reputational incentive on reducing the BCF as moving to a financial incentive would not be appropriate as some activities in the BCF reporting are outside of networks' control, for example, scope 3 emissions.

OVQ19. Are there any other suggestions you would like to make regarding reporting standards?

The reporting standards for the AER should be developed in collaboration with Ofgem and the other licensees. The licensees should be involved at every stage in the development so that Ofgem understand what is possible and within the materiality of our businesses. Stakeholder feedback is key to producing an AER, as stakeholders are the target audience as well as Ofgem.

OVQ20. Do you agree with our minded-to position to withdraw the Environmental Scorecard and incentivise improvements in environmental impacts through the Annual Environmental Report (AER)? Please explain your reasoning.

Significant reform or revision is needed without this we are supportive of the withdrawal of the environmental scorecard incentive which has not worked well in RIIO2.

OVQ21. Do you consider that there are other areas which require financial incentives which cannot be captured by the AER? Please explain your reasoning.

Ofgem should ensure that EAP Guidance captures all significant environmental impacts of the network companies which should then be reported on in company AER's.

OVQ22. Do you have any views on our proposals for the NARM framework?

We are in principle supportive of retaining the NARM framework as one means of identifying and justifying refurbishment and replacement interventions on NARM assets. However, some network companies have identified a number of challenges with the current approach.

We believe that these can be addressed through some refinements to the current approach with clarity required on an updated methodology consistent with the development and submission of BPDs in July' 24.

OVQ23. Do you have any views on our proposed long-term approach to embedding climate resilience, including the principles for embedding climate resilience?

We welcome the principles outlined and the alignment with the ED sector as embedding climate resilience into network development plans is crucial to ensure appropriate planning, design and adaptation of network assets to the risks of climate change in order to ensure a continued resilient and reliable network.

It is important that resilience strategies are developed on a common basis across the sectors to ensure that interdependent infrastructure and services are treated consistently. These cost assessment processes for all types of network investment will be required to distinguish any associated costs such that they are not 'benchmarked out' in the assessment. Finally we support Ofgem's proposals to establish sector working groups to enable network companies to work together to develop forward looking climate resilience metrics and share best practice and expertise. We also support Ofgem's proposal for a resilience reopener.

OVQ24. Are there any early learnings we should be aware of/incorporate to make progress on this in RIIO-3 or beyond?

To better incorporate climate resilience within RIIO-3 we would advocate for a clear, common, and consistent approach being applied to all networks. This could be advanced by an enduring working group involving all key parties to ensure an efficient and whole system approach to climate resilience.

We welcome the Government's Third National Adaptation Programme (NAP3) including the requirement to ensure that energy codes and standards build in climate and weather resilience and are committed to ensure this is actioned.

Balancing, climate resilience and security, with consumer value as well as decarbonisation will be challenging and must be considered, we urge that Ofgem utilise the technical expertise and experience of the networks to

ensure optimal solutions with no assumptions that 'market-based approaches' would result in the correct technical solutions.

OVQ25. Do you agree with our suggested approach for embedding climate resilience into RIIO3, namely: introducing resilience strategies; developing forward-looking resilience metrics; and introducing climate resilience working groups?

Yes. See responses to Q.23 & Q.24.

OVQ26. Do you agree with the proposals that we have set out around the resilience metric?

We agree in principle with the development of a resilience metric but also note that the timing of its development is not consistent with the programme for business plan submission. We propose that the metric is developed over the course of RIIO3 for implementation in RIIO4.

OVQ27. Do you agree with our proposals on workforce resilience?

We support in principle the establishment of a consistent format for reporting on activities linked to workforce resilience. The feasibility and potential benefits of any approach need to be explored further.

Truth Telling and Efficiency Incentives

OVQ28. Do you agree with our proposed key objectives for truth telling and efficiency incentives?

The Totex Incentive Mechanism (TIM) and Business Plan Incentive (BPI) are well established with their operation understood, so in general, these should continue to be used.

In providing justification for costs "ambitious cost forecasts" could be more appropriately phrased as "supports well-justified cost forecasts" as an objective for this incentive. Ofgem also needs to be clear on the balance between each of the objectives and on what the BPI is seeking to achieve.

We do not consider 'truth-telling incentive' an appropriate name for this regulatory mechanism and would instead encourage a focus on 'Business Plan Quality' or using the 'Business Plan Incentive' as named for RIIO-2.

OVQ29. What are your thoughts on our proposals relating to minimum requirements under an evolved BPI approach?

We would welcome a simplification of minimum requirements and the goal should be to have a clear, well-defined set of requirements that are achievable and able to be objectively assessed and not leave room for different interpretations of Ofgem's guidance to drive penalties and rewards. It is not appropriate for minimum requirements to be used to adjust the level of ambition or detailed content of the business plan, which should be considered through other elements of the BPI.

Assessment should happen at final business plan stage only as draft business plans will only consist of part of what is needed to carry out an assessment. We are concerned that there is currently very limited detail provided by Ofgem regarding the Business Plan Incentive.

OVQ30. What are your thoughts on an 'in the round' assessment of cost forecasts as opposed to a high/lower confidence breakdown and assessment?

No response to this question.

OVQ31. What are your thoughts on an 'in the round' assessment of business plan ambition as opposed to requiring and assessing CVPs?

We welcome Ofgem's review of how networks are incentivised to propose high-quality and accurate Business Plans and agree with many of the lessons learned that Ofgem has identified from stakeholders from the RIIO-2 BPI processes. This shows that the BPI was quite subjective, complex, and relatively opaque for stakeholders. We therefore welcome simplification of the mechanism with clear and concise minimum expectations. We also support Ofgem's proposed move away from Consumer Value Propositions, given the significant effort in preparing them compared with the very few CVPs accepted at RIIO-2.

However, an 'in-the-round' assessment of ambition risks being highly opaque and subjective. This would require a clear methodology with limited room for interpretation when assessing plan ambition, which is highly challenging without clear and specific assessment criteria.

OVQ32. What are your thoughts on the size and strength of any truth telling incentive?

In RIIO-2 the overall BPI value was capped at $\pm 2\%$. It is too early to give a view on the appropriate level for the cap on the BPI when we have no clarity on how the BPI will be designed, and degree of scope for subjectivity in the assessment of business plans.

We consider higher BPI values are appropriate only where stakeholders can be satisfied that the assessment of plans will deliver an accurate and objective measure of their quality and the value that a well-defined business plan brings for consumers. Where more generalised approaches are taken, such as an 'in the round' assessment, a lower-strength BPI may be more appropriate, recognising the potential weaknesses of the regulatory mechanism.

OVQ33. What are your thoughts on any alternative approaches that could be used instead of an evolved BPI?

It would not be practical to design and implement a wholly new BPI in the time available. Whilst we do not have a view on whether an evolved RIIO-2 BPI or indeed a move back to the IQI is the appropriate approach, it must encourage a business plan that is in the interests of consumers.

However, Ofgem may wish to consider whether there is merit in applying different approaches, under the overarching mechanism, for the different sectors. This would reflect the differing environment and activities being undertaken across the sectors within RIIO-3, for example between GD and ET.

OVQ34. What are your thoughts on the options for calculating the sharing factors and do you see strong reasons for changing the overall strength of the sharing factors relative to RIIO-2?

We agree that the TIM has been effective at driving cost efficiencies and consumer value. As a principle networks (and Ofgem) should seek to achieve a high degree of confidence in costs with strong incentives set to drive innovation and resulting efficiencies and improvements benefiting consumers. However, it should also be recognised that the more challenging outlook for RIIO-3 including increased supply chain and delivery risks

coupled with the increased investment needed suggest that the approach to setting the incentive rate should be reviewed.

It is commonly recognised that there is a significant risk of material overspend in RIIO-3, given markets are dictating that many network assets have seen inflation that outstrips commonly used indices. The TIM will need to be set in the context of the wider financial package for RIIO-3, including the financing parameters, incentives, and overall risk exposure.

Due to the aforementioned factors RIIO-3 will face significantly more cost uncertainty than RIIO-2 and by extension networks will have a lower level of confidence in their costs and cost forecasts in RIIO-3. At the same time, the financeability impact of the TIM is far more significant, as more volatile upwards pressure on prices means an overspend scenario is significantly more likely to emerge. In this scenario, a CDIR-based approach could create perverse incentives for network companies to propose lower confidence or less well justified costs to seek a lower TIM, and therefore less exposure to the observed upward pressure on costs.

We do not support fixing the TIM at the RIIO2 level without a review of its appropriateness in the context of RIIO-3. It could expose networks to market conditions to an unacceptable extent and be arbitrary, unfair, and would not recognise the challenges of both cost volatility and investability in RIIO-3.

Managing Uncertainty

OVQ35. Do you agree with our proposal to retain the Net Zero Re-opener with its current scope and parameters for RIIO-3?

We agree with Ofgem's proposal to retain the Net Zero reopener. However, based on experience of RIIO2 it should be designed so that it should be strengthened to support the pace of change that is needed to reach net zero by 2050.

OVQ36. What are your views on our proposal, in principle, to retain the Net Zero and Re-opener Development Fund UIOLI for RIIO-3? What are your views on the types of projects it could fund and how it would interact with other sector specific price control mechanisms?

We welcome the retention of the Net Zero and Re-opener Development Fund UIOLI for RIIO-3.

OVQ37. Do you think we should retain the NZASP for GD and GT? What should its scope be and what kind of projects would you expect to be funded through this re-opener in RIIO-3?

We agree with Ofgem's initial position to retain this specific re-opener mechanism during RIIO-3. NZASP has been particularly important in supporting early design and development for projects like Project Union Feasibility and Methane Emission Reductions projects.

OVQ38. Do you have any views on consolidating the net zero related re-openers and the UIOLI allowance?

Experience from RIIO-2 suggests that the net zero related re-openers and UIOLI allowance serve different projects at different materiality and stages of evolution.

We therefore support the mechanisms being kept separate as each provide distinct and valuable services. See our response to OVQ.37.

OVQ39. Do you agree with our proposed position to retain the Coordinated Adjustment Mechanism for RIIO-3? If it were to be retained, what design and incentive considerations could we implement to enhance the utilisation and value of this mechanism?

No response to this question.

OVQ40. Do you agree with our proposal to allow physical security costs to be submitted through a broader resilience re-opener?

As a principle physical security related costs should, where there is sufficient certainty of need and cost, be contained in baseline costs in business plans. We note that there are drivers for investment other than criteria set out by DESNZ or NPSA guidance, for example CAF objective E and general operational security requirements. The criteria for baseline and reopener submissions must take account of the need to upgrade and modernise security measures irrespective of CNI classification.

However, there is uncertainty and we recognise and support the need for a reopener, and consistent with the approach taken for RIIO2, this should be designed to be flexible to ensure that it can be triggered consistent with the timing of availability of new information.

Design of a general reopener also needs to ensure that any materiality threshold does not inadvertently preclude cyber coming forward alone and perhaps a better approach may be to have two potential routes for physical security allowances.

OVQ41. Do you agree with our proposed approach to introduce a resilience re-opener?

Please see our response to OVQ40 with respect to physical security. We are broadly supportive of the re-opener but further clarity is required on the eligible scopes (paragraph 8.50) to ensure that there are no unintended omissions. We request that Ofgem consider the need for flexibility when setting re-opener windows.

OVQ42. Do you have any views on whether the opex escalator should be retained and if so, how we could evolve the opex escalator for RIIO-3?

The Opex escalator should be retained as it is necessary, but it does need to evolve to address current underlying weaknesses. As currently designed it is not fit for purpose.

It is crucial that the approach identified as part of the price control settlement should not be amended without consultation. This should include Ofgem providing clear guidance ensuring common understanding of how the mechanism is intended to work during the future price control.

OVQ43. Do you have any views on how we should effectively monitor the delivery of UMs?

We agree, in principle with Ofgem that consistency of company submissions is crucial to effective monitoring, and that companies should not be remunerated twice for the same activity.

In our view, consistency comes from:

1. Clear and unambiguous guidance for submissions,
2. Common understanding of guidance,
3. Examples to clearly illustrate key points of guidance,
4. Agreed pathway to resolution of disputes should they arise.

Cost of Service

OVQ44. Do you have any views on whether to evolve the RIIO-2 methodologies for RPEs and ongoing efficiency for RIIO-3, and if so how?

Real price effects and ongoing efficiency are important parts of the regulatory toolkit in managing cost pressures and associated risk. The RIIO-2 methodologies should be reviewed and applied to RIIO-3 with any necessary changes.

The application of the RPE methodology should be adapted to more closely represent the cost pressures the industry will face going forward, which means reviewing the indices used to set the RPE. We would expect the application of the Ongoing Efficiency methodology to reflect evidence of productivity improvements in similar industries.

OVQ45. Do you have any views on the potential application of RPEs and ongoing efficiency to re-opener applications?

No response to this question.

Cyber Security

OVQ46. Do you agree with our proposed approach to cyber resilience in RIIO-3?

Cyber resilience continues to be a significant challenge of the next 10 years which covers the RIIO-3 period. We broadly agree with the approach and direction of the cyber provisions and proposals could be developed even further in some areas, for example, ensuring greater alignment with the networks' IT and OT plans and allowing for greater within period investment flexibility as may be required.

Technology is the key driver for that challenge as it continues to be the most significant factor in achieving net zero and delivering efficiency for the customer. The requirement to become ever more digitalised, automated and intelligent also changes the threats we face and greatens the risk to our networks from external actors which networks takes very seriously. Our members support the work that government and its agencies are directing for the electricity sectors in GB.

Innovation

In this section we set our in-principle responses to the questions posed. This should be read in conjunction with individual ENA member responses, particularly we draw attention to the references to evidence in support of our outlined positions.

OVQ47. Do you have any views on our proposal to retain a flexible allowance, providing evidence for why you think that it should, or should not be, retained?

We welcome Ofgem's acknowledgment that innovation funding and support are needed to ensure adequate resources are allocated to support network innovation. We strongly support retention of a flexible innovation allowance such as NIA or similar, it being necessary for supporting higher risk innovation across the networks, SMEs and Academia, that would otherwise not be undertaken. This type of support has a proven track record of delivering benefits to consumers and the wider energy system thereby supporting the transition to net zero.

The flexibility and reliability of this funding enables innovation projects to be developed at pace in an agile way, sometimes in response to market changes, allowing continuity in innovation and ensures a common innovation strategy, which benefits all network innovation projects by retaining experience, helping innovation permeate throughout the networks by allowing learning, knowledge and developed 'know how' to be easily carried between projects. This would not be possible within the usual Business Planning cycle or at the very least would be slower and less efficient.

OVQ48. Do you have any views on our proposal to retain a competitive network innovation funding pot, that continues to focus on key challenges facing the energy sector, with phases to de-risk the pot?

We support Ofgem's proposal to retain a competitive network innovation funding pot (such as SIF) as this type of funding mechanism has previously addressed a gap between innovation funding for smaller research and development projects (NIA), and commercial offerings, through funding large demonstrators that can test new solutions and prepare these for market adoption.

However, we believe that there is significant scope for improving the process that will reduce the administrative burden and increase the window of opportunity each year for innovators and networks to access the funding. Increasing the funding windows to at least two a year would significantly reduce delays to innovation projects being taken forward and realisation of the associated benefits and spread the administrative burden through the avoidance of bottlenecks that comes with a single annual funding round.

Other suggested improvements include;

- The annual SIF challenges become more consistent to support long term future portfolio planning;
- Removal of Discovery rounds as they have the highest administrative burden relative to the value of that stage of the process, with preliminary work/feasibility/Discovery projects delivered through (but not limited to) a flexible allowance (NIA);
- The 'competitive' innovation funding pot would be focused on Alpha and Beta type projects (a single application with a decision stage gate for Beta phase).

The resource required to support a competitive process also needs to be considered. Funding only starts once a project is initiated but a significant amount of time is spent to engage with the market, review pitching, filter ideas, and work with innovators (particularly those new to networks or early start-ups) to develop the application is key

to success of the portfolio. The cumulative impact on resource of multiple rounds per price control and the resource intensity required to shape larger Beta projects (especially as not all will have a direct network benefit), needs to be factored into any retention of competitive funding.

OVQ49. Do you have any views on how the structure of the price control innovation funding could be adapted to better focus on whole systems problems, and ensure strategic alignment with other public sector initiatives?

Existing regulatory mechanisms already encourage whole system approaches and projects, however we agree with Ofgem's comments on the need to further streamline the operation of these innovation funding mechanisms. Simplification of the conditions and applications to these mechanisms will make it easier for new (whole system) participants, outside of the energy networks and traditional suppliers, to collaborate and innovate more successfully.

Strategic alignment is crucial to ensuring there is funding available to drive all aspects of the energy transition to Net Zero, particularly with a focus on whole energy system challenges where innovation can be most impactful. The strategic focus of funding should not be supported by stakeholder engagement alone, other pieces of evidence and analysis are needed for selection of challenges, including (where available) literature reviews and benefits analysis. This process for the selection of challenges and the evidence used should be completely transparent.

As previously mentioned, availability of flexible non-competitive NIA type funding enables networks to manage and respond to a rapidly evolving landscape whilst encouraging close collaboration and shared learning thereby driving better outcomes. It also avoids duplication by providing a forum for open discussion and challenge on innovation projects, allowing networks to address common issues and facilitate collaboration enabling trials of innovative but untested solutions to achieve key goals, which is a critical step in the development of new technologies and approaches to reach net zero 2050 targets. This level of flexibility is not achievable through other funding sources currently available.

OVQ50. Do you agree with our proposal to continue with a similar level of innovation funding, and if not, could you provide evidence for why a different amount is required, including consumer research you are aware of into their willingness to pay for network innovation?

We strongly concur with Ofgem's acknowledgment that the importance of innovation is reflected in the government's target for total research and development spending to reach 2.4% of GDP by 2027. We therefore see a strong case for greater alignment between innovation funding delivered under Ofgem and the Government's target. Any reduction would be wholly inconsistent with the target and its underlying drivers.

As Ofgem recognises in the consultation accelerating the shift away from fossil fuels to clean energy will help improve affordability by breaking the link between electricity bills and gas prices; it will increase the security of supplies of energy; it will help to protect consumers from the dangers of unmitigated climate change; and it will help generate growth, jobs and investment.

The energy networks remain at the heart of this transition and innovation will be central to its timely efficient achievement. The current level of funding was first proposed in 2020, since then costs to deliver projects have increased through higher supplier quotes (these supply chain driven costs issue are recognised by Ofgem), therefore a funding levels need to take into account these externalities.

The drive towards whole-system planning and delivery and associated challenges will require additional innovation funding. In addition, as the current portfolio of projects matures, future innovation activities will naturally become larger-scale, higher TRL development and demonstration projects that inherently require more funding (due to increasing complexity, time and resources re-quired). Allowing funding to be used for 'roll-out' would ensure timely and efficient implementation of network solutions.

OVQ51. Do you agree there is a need to expand the scope of innovation funding to be more inclusive of third parties?

Expanding the scope of innovation funding to be more inclusive to third parties is an area where we need to work together to continually improve. Whilst the SIF and NIA funding initiatives must have external partners involved and it is recognised that all innovation funding requires significant third party involvement (~75% of NIA must be spent with 3rd Parties) it is also fair to say that there are barriers to involvement for some 3rd parties, particularly smaller suppliers and startups due to the maturity of their technologies making it difficult to compete with more established solutions. Some smaller participants also sometimes have difficulty due to working within restrictive contracting and procurement constraints and/or reluctance to share IP.

Networks are therefore making significant efforts to engage third parties including ENA's annual Energy Innovation Summit which had 1137 attendees from 340 organisations and ENA's new Basecamp Event where networks generated 53 problem statements and received 273 proposals from innovators. Supplementary to these, the networks typically foster direct engagement with partners through their communication plans that support project dissemination across different media channels and also through the tendering process, for example, promoting opportunities using the Bravo and Find-a-Tender platforms.

Some of the barriers for smaller entrants might be addressed through greater simplification and clarity around the funding conditions and contracting terms. Novel arrangements (such as the proposed Accelerator) could also help.

As per our previous comments the availability of flexible funding allows time and space to foster relationships with third parties, who can bring ideas across a wide range of topics at times that fit the evolution of their products and services, rather than fitting into competition windows. Enabling 3rd parties to access funding independently of networks would not address this issue, as networks would still need to be involved in the review of these proposals, or on project steering committees to ensure solutions are viable for implementation.

Finally, it should be recognised that a significant proportion of available funding is already allocated to third parties for which there is strong competition, so it follows that not all proposals will/or have been successful. Spreading available funding more thinly across a greater number of proposals is unlikely to increase net benefits realised from innovation scheme(s) as a whole, which leaves increasing the funding pot and ringfencing a portion for small companies and to fund 'weaker' proposals. We should also point out that the high-risk profile of some proposals is inconsistent with the networks' business characteristics being shaped by compliance with the regulatory framework and its requirements. There are also other routes that innovators can take and Ofgem should also be cognisant of the balance of cost and risk borne by consumers.

OVQ52. What are your views on us establishing an accelerator to support early- stage innovators?

Although we support this initiative in principle more clarity is needed on the purpose of the Accelerator including how it would link to existing energy accelerators (e.g. Energy Systems Catapult, Green Finance Institute, Knowledge Transfer Network and Energy Innovation Centre) in order to avoid duplication. Key is to understand how networks would resource, filter and prioritise ideas, to capture the real value add game changers and how this would be managed alongside adherence to procurement rules.

Ofgem should also give careful consideration as to the value that this type of early-stage innovator support would provide for consumers (who are ultimately taking the risk of this funding as the billpayer), including when taking into account the time and resource constraints it would place on networks to administer.

Ultimately it is for the market to choose solutions and so support for startups should focus on developing their solutions to compete equally with established providers. Notwithstanding our earlier comments in response to this question, this might best be achieved, for example, through Sandboxes which allow earlier-stage innovators to receive ring-fenced funding from Ofgem to enable them to demonstrate their solutions on an equal basis with existing providers.

Also see final paragraph of our response to OVQ.51.

OVQ53. What are your views on our proposal for this to be a smaller part of a future challenge fund and to be sponsored by networks?

See our points made under OVQ52.

OVQ54. Do you have evidence of potential innovation projects that have not been implemented or sought funding due to the five-year structure of the price control? How could this issue be addressed?

There is evidence that innovation projects were delayed at the end of RIIO-1 due to uncertainty in the funding available for RIIO-2.

We would like to see a mechanism to allow carryover funding for projects that span price control periods. In the case of RIIO-3 arrangements these need to be agreed early to avoid a cliff-edge in activity (especially due to the inherent uncertainty in delivery timescales for innovation projects).

There are lessons to be learnt from previous approaches, for example, to bridge into RIIO-2, 12 months of carryover NIA (CNIA) was allowed, but this did not fully mitigate projects scaling down and back up between price control periods.

Where projects are expected to run beyond a carryover period, we would like to see them continue with agreed funding until project end, as long as they do not exceed the price control allowances.

OVQ55. Do you agree with our proposal to run FRS trials with an explicit focus on informing changes to the rules governing energy network activities – incentivised through SIF or other price control mechanisms?

We believe FRS may have a role and think the ability to include FRS trials in projects funded via Ofgem innovation allowances could be important in this context , as would a strong process and accompanying governance.

OVQ56. What topics could FRS trials usefully focus on and why?

We have no specific examples of topics for FRS trials, however, we suggest that the most logical candidates would be those topics associated with the ERS submissions made to date.

OVQ57. Do you have any feedback on the view that not enough network innovation funded projects have been rolled out, and can you share any evidence you have to support your position?

Not all projects need to be rolled-out as some projects are purely for research and learning generation which allows us to fail fast and encourages iterative development to ensure the right ideas are refined as they are taken forward. In addition, there is typically a lag between an innovation project closing and the solution being implemented into the business. Benefits are therefore unlikely to be realised in the same price control period. 'Unsuccessful' projects that are not implemented still deliver value to the business in terms of knowledge/learnings generated, avoided future work/costs and more informed decision making.

Rewards for the roll-out of NIA projects and a roll-out allowance for SIF projects could help incentivise deployment and remove barriers to getting larger, cross-sector IT investments underway. Particularly where benefits could be more widely realised by the wider industry (i.e. where networks aren't incentivised to roll-out more widely, due to no direct benefit from them doing so).

OVQ58. What are your views on the design of potential new mechanisms to address this?

Whilst we in-principle support the idea of a funding mechanism to support the rollout of projects the proposed approach is unlikely to offer the best all round approach and if this policy proposals were to be taken forward it should be subject to a full consultation.

Rollout funding could also be included within the SIF mechanism and the conditions of NIA funding could be extended to allow for rapid implementation to be included in a project's scope, as long as it meets necessary criteria. This would avoid unnecessary delays in realising the benefits from projects.

Data and Digitalisation

OVQ59. Do you have any views on the timelines for modernising regulatory reporting?

We are in principle supportive of the proposal to modernise regulatory reporting and move away from a reliance on excel-based transmission of regulatory data. There are a number of data submissions/reports that networks are required to provide to Ofgem that could be moved to a digitalised approach. Further details on this provided in our response to OVQ60.

If a digital approach to regulatory reporting is to be developed and adopted, a supporting governance framework will be required to ensure all data is managed consistently and appropriately. The data governance framework should embody the Data Best Practice Principles, which will include, but not be limited to; Metadata, data dictionaries, data life cycle management, data quality, data usage/licencing, ownership.

In respect of the milestone proposed in section 13.13 Initial phase - Ofgem internal focused (Jan - June 2024), we believe that it will be beneficial for Ofgem to involve the networks in this initial phased as they already have

well established methods for surfacing and sharing data. We believe it would be best to make use of digital methods that have already been proven and established.

We are supportive of the proposed timelines and believe that if modernised reporting methodologies are to be ready in time for RIIO-3 that their development is needed during RIIO-2. However, it should be recognised that there will be a cost associated with development of new regulatory reporting methodologies and systems. The Digitalisation Reopener would seem the appropriate route for these costs to be taken into account. Furthermore, there is a dependency risk on the implementation of the DSI MVP for network companies being in a position to share information to a common approach.

OVQ60. Do you have any initial views on opportunities for improving efficiency in providing the data that Ofgem receives as part of regulatory instructions and guidance?

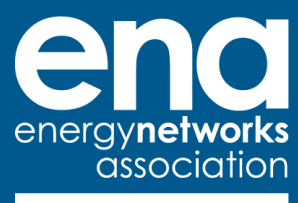
There may be scope for regulatory data and submissions to be provided via API which could easily be converted into flat file formats, for example excel-based transmissions. Providing access to regulatory data via API has efficiency benefits that reduce / remove the human interaction, which can improve the speed and quality of reporting.

The benefits of digitalising regulatory reporting would need to be balanced against the risk of mis-interpretation and mis-use of the data. As such we believe a complementary governance framework would also be required to ensure the data is prepared and consumed appropriately. The data governance framework should ensure all of the Data Best Practice Principles are applied and properly understood by all parties. This would include, but not be limited to; Metadata, data dictionaries, data life cycle management, data quality, data usage/licencing, ownership.

OVQ61. Are there areas of regulatory reporting that would be most beneficial to start with in the modernising project?

The logical area on which to focus first is excel-based reporting, but this can be part of the considerations under Ofgem's proposed phase 1 of the project, perhaps guided by stakeholders and the benefits that would be recognised through modernisation.

We do however believe that ad-hoc reporting, DNO notifications, and operational status updates should not fall under the remit of the modernising project. For example; any communications during storm or emergency conditions, safety related incidents, cyber related incidents or any other event that requires clear lines of communications and/or a specified DNO contact should be excluded.



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