

Appendix 1 – SSEN Distribution Response to Overview Questions

Future of gas

We do not intend to provide views on the section of the consultation related to the future of gas and will leave this to the gas distribution network operators and other relevant stakeholders to comment on.

Role of scenarios and planning pathways

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

We agree with the continuing use of FES in the price setting context. FES is a trusted source of credible planning assumptions, that is widely used across industry including in the formation of the Distributed FES. Consistency, in use of the same forecasting framework across different companies with different roles in the energy sector, is key in the whole energy system being developed in a coherent and therefore efficient way.

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

The FES framework is evolving to a more pathway-based approach; this means a narrower range of more strategically focussed futures is considered for planning. Setting up ED3 on the basis of the most supported scenario today is sensible, but price controls will need to remain flexible as scenarios or pathways must evolve as information about the future changes (such as with key policy announcements). As such, we support using Leading the Way to set baseline allowances. It reaches Net Zero, and encourages planning for a more ambitious energy future. Setting out ambitious plans early will enable us to work closely with our supply chain and local communities, to deliver works in a way that keeps costs as efficient as possible and reduces disruption, with the re-opener mechanism ultimately acting as a failsafe for customers.

For Distribution, we will need to work out interactions between the choice of scenario and the role of the RESP, also to ensure that DNOs plans align closely with local ambitions. Early sight of the scenario we are expected to plan against for ED3 would be useful- smoothing out planning between the later years of ED2 and ED3 to avoid cliff edge effects, increasing the stability and certainty that underpin efficient and effective investment strategies.

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

While we understand this is pragmatic given the identified risk to energy system resiliency, planning against Falling Short does create risks that should be recognised. Firstly, there may be an impact on stranding risk if different vectors plan against different forecasts. Secondly, this approach could create confusion at the local level, with a risk of DNO and GDN plan being misaligned, at least until a firm policy decision is reached for future of gas. The RESP role currently in development can be a useful vehicle for regionalised exploration of these risks, or convergence on more regionally tuned pathways across vectors.

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?

Using a FES scenario, even if conservative, still allows robust understanding across vectors of the implications for other networks and aligns with how many stakeholders conceptualise energy futures. This is therefore more helpful from the whole system perspective.

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?

This does not apply to Distribution directly, as we have a later price control window. We would emphasise that rerunning studies across entire networks is undesirable for what is usually not a significant change in outcome- In the context of DFES specifically, which requires significant input from stakeholders, stakeholder work is done early in the process and final plans should be allowed to align to scenarios that were available for testing stakeholder requirements. Uncertainty will continue to exist, regardless of the methodology underpinning scenario or pathway development, and therefore uncertainty mechanisms should remain a key feature of price controls. The introduction of the RESP should have a significant impact on scenario selection and how stakeholder inputs influence planning scenarios deployed for price control purposes. Any new approaches to scenario selection driven by RESP should be cognisant of the business planning process.

Outputs and incentives

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

As noted by Ofgem we won't really know how effective PCDs have been until the end of the current price control period. This is particularly true in the context of RIIO-ED2, which is still only in year one.

We think PCDs can have a role in protecting customers from non-delivery, beyond that provided by the Totex Incentive Mechanism (TIM), so long as they are well designed and used proportionately. PCDs should be subject to a materiality threshold as they have been in RIIO-ED2. This will help reduce the regulatory burden associated with reporting on PCDs, which for example is very high in the context of cyber, where PCDs have not actually followed the materiality threshold rule set by Ofgem (with even some PCDs worth less than £1m). We note Ofgem's comment that PCDs should not necessarily apply to innovation projects. We agree that PCDs would be too restrictive a concept to apply to innovation.

In RIIO-ED2, the interaction between various mechanisms including PCDs, UMs and UIOLIs is confusing. We agree that some PCDs may be subject to a UM but we don't think that PCDs and UIOLIs should be used simultaneously. We will need to find ways to add greater clarity and simplify interactions.

In setting PCDs, Ofgem must recognise delays can occur that are outside company control. While these delays could have several different impacts, it may be difficult to identify and quantify any detriment up-front. We are not sure what additional benefits identifying these up-front would bring.

We welcome the continued emphasis on efficiency and flexibility. We continue to think that companies should retain the full benefits of any genuine efficiency. On flexibility, we welcome recognition from Ofgem that changes in scope can occur, and that these can be in the interests of customers. There should be a clear and proportionate process set out to manage any requests for changes in scope to ensure there is robust evidence for any changes, in particular where significant. Ofgem should also be clear on how a PCD would then differ from a UM.

With regards to flexibility, PCDs will apply only to large projects. These projects often involve long lead times and costs can sometimes evolve as they progress. This is especially true in the current context, where for example supply chain challenges are significant.

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

Overall financial incentive package (incl. strength of incentives and calibration)

A strong and well-balanced financial incentive package is essential in driving the right behaviours for customers and ensuring network companies have a genuine opportunity to outperform and receive and appropriate reward as well as to be penalised where behaviour falls short of customer expectations. The RIIO-ED2 incentive package was weaker than previous price controls and the balance unfairly tipped towards penalty; this should be addressed in RIIO-ED3.

We have no concerns with Ofgem's proposals to present ODI-F values as a percentage of RoRE.

Incentive on network company coordination

We note Ofgem's high level proposal to develop an incentive on cross-sector coordination between the network companies. No detail is provided, but whole system obligations already exist and therefore any incentive should genuinely add value. Standard Licence Condition 7A Whole Electricity System Obligations sets out an obligation on electricity distributors to coordinate and cooperate with other electricity distributors and transmission licensees on areas that could have cross-network impacts.

Target setting

Setting targets at the right level is essential if the incentives are to be effective. There are some areas, particularly where incentives have been in place for some time, where performance across DNOs is already consistently high. An example is customer service where performance is very high across the DNOs. In these areas there is limited if any additional value to consumers in continuing to squeeze performance and the approach should therefore be to ensure there is no reduction in the current high performance.

Ultimately, target-setting must be considered in the context of individual incentives. This includes the nature of targets (static vs. dynamic), the data used to set targets, and the use of deadbands.

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

We support the continuation of reputational incentives although note that these should use regulatory reporting metrics that are already in place to avoid additional data extracts and potential duplication of work.

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

We welcome the opportunity for companies to propose bespoke outputs, but agree that the number of bespoke outputs should be limited. Clear guidance should help ensure that companies only propose bespoke outputs that can deliver genuine value for consumers.

We agree that bespoke outputs should be used to recognise unique local requirements. We think there should also be bespoke outputs to recognise ambitious proposals, for example linked to the delivery of local net zero initiatives.

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

We support the idea of retaining EAPs and AERs in RIIO-3, considering them valuable instruments for ensuring that network companies identify, address, and transparently report the environmental impacts of their operations. However, we express reservations about the compatibility of KPIs, particularly emphasizing the biodiversity net gain table in the AER. A notable challenge arises in comparing the biodiversity net gain performance of DNOs since it is contingent on the number of projects and associated impacts. Another illustrative example pertains to the undergrounding of overhead lines, where regional variations and challenges further complicate uniform performance metrics. The divergence in the starting points and actions taken by different companies adds an additional layer of complexity to the comparability of KPIs among DNOs.

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

Considering our concerns about the consistency and comparability of KPIs, we highlight the importance of the commentary section within the newly suggested AER format. We recommend that KPIs be split into those that can be directly controlled by companies and those that are outside of direct control. Regarding the KPIs associated with biodiversity, we emphasize the need for a sufficient timeframe to better understand the evolving costs related to biodiversity. We propose a shift from output-based to outcome-based performance measures, promoting flexibility by accommodating targets with different approaches.

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

We agree with the proposal to retain the reputational incentive on TOs and GDNs for reducing their Business Carbon Footprint (BCF). The emphasis on reputational incentives is an effective tool in driving companies to adopt robust reduction targets for greenhouse gas emissions. This approach aligns with the goal of promoting environmental responsibility. It is essential, however, to consider year-to-year variability, particularly in the case of SF₆, and to address regional disparities in BCF. Moreover, it should be taken into consideration that companies' targets will be reviewed by the Science Based Target initiative, and criteria changes to these targets may alter companies' positions. Finally, the challenge of reporting targets that encompass both inclusive and exclusive losses needs careful attention.

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

We have no other suggestions at present with regards to reporting standards.

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.

We support the proposed decision to withdraw the Environmental Scorecard and shift towards incentivizing improvements in environmental impacts through the AER. The acknowledgment of repetition across reporting elements indicates a practical move to streamline and eliminate redundancy in reporting. That said, we do need to ensure all incentives are applied fairly across all vectors for example the SF₆ ODI-F applied in Transmission, but not in Distribution when we share 132kV voltages is unfair and puts some regional consumers at an advantage over others.

We would welcome a discussion around losses and options for bringing losses into the price control, this is an area that could have a dramatic impact and yet is really difficult to make an impact. An incentive or specific mechanism in this space could drive behaviours in the right direction. Of course, analysis should be done to understand if the impact of removing the losses discretionary reward has slowed down progress.

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

We recommend broadening the AER's scope by continuing the ability to request financial allowances for emerging environmental needs like nature investments to achieve carbon removals. The substantial risk associated with the potential failure of carbon markets emphasizes the need for targeted financial support to address and mitigate such uncertainties effectively. Additionally, land purchase to meet environmental requirements, which might not be adequately addressed within the AER framework, could benefit from specific financial mechanisms. This proactive measure ensures a more comprehensive strategy to manage environmental risks and uncertainties, fostering effective environmental management and improvement. However, this feels like this should be more aligned with baseline allowances and uncertainty mechanisms rather than an incentive.

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

We support the continued use of the NARM framework in RIIO-3.

In line with Ofgem's intent to simplify the Business Plan assessment process for RIIO-3, we would recommend where NARMs related assets interventions utilise the long-term risk methodology where this can demonstrate the cost of the intervention is outweighed by the network risk reduction benefit then these NARM asset categories should be exempt from the full requirements of EJP and CBAs. These requirements should only remain for non-NARM assets. NARM assets should be supported by a requirement for an appropriate intervention strategy narrative to be provided for each asset class covered by NARM to support this approach.

This is in line with Ofgem's policy intent as set out in its RIIO-ED2 Methodology Decision: Annex 1¹ where it states that the use of NARM in justifying investment decisions will ease the regulatory burden associated with providing investment justification, where clear justification for asset replacement and refurbishment activity is provided through the NARM.

As demonstrated within our ED2 Business Plan, there is significant additional intervention efficiency to be gained by identifying where the criticality of the asset does not merit its automatic replacement on reaching the minimum criteria but that a tailored approach to extending the life of the asset within the methodology in relation to the appetite to risk can support justified delayed intervention resulting in further significant savings in unnecessary early intervention. In the SSEN Distribution Business Plan for ED2 we were able to demonstrate an additional saving of £104m from this tuned approach which could be further developed in NARM for RIIO-3 in the interests of providing further efficiencies for consumers.

We would emphasise that the value to monetised risk is consistent in relation to the reference costs used by the methodology across all sectors. However, we would also note that the resulting £/risk point assessment process is comparable for the licence areas across multiple price control periods and in some cases within Licence areas within the same companies, but it is not a realistic

¹ [RIIO-ED2 Methodology Decision: Annex 1 - Delivering value for money services for consumers](#)

comparator across companies or sectors. This metric should not be used as the basis to set allowances but as a measure to understand the efficiencies to be gained by each licence area within each sector in their continuing efficiency to provide maximum value to the customer by ever improving performance in reducing network risk for the investment made.

Electricity Distribution have a well matured NARM methodology through CNAIM v2.1 and as indicated by Ofgem, other than minor editorial changes, we do not see any need for significant changes to its operation. However, we do recognise the benefits which could be achieved in expanding the methodology to other asset types not currently included. In reviewing this within the DNOs and with Ofgem, the availability of the necessary data (whether that be condition inspections or otherwise) is going to drive the timescale for any meaningful additions. SSEN Distribution would support the development of further modelling to incorporate additional asset classifications into NARMS during the RIIO-3 period potentially for inclusion in later price controls subject to available data. This data availability would limit the extent of such development to varying degrees of complexity from simple age-based approach to full expansive models once suitable data has been collected or made available to support the development of these requirements.

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 Ofgem's recognition of the importance of climate resilience and climate mitigation. We are already seeing the impacts of climate change on our distribution network, with six named storms impacting our activities between October 2023 and January 2024. But the impact of climate change goes much beyond named storms; it encompasses the longer-lasting impacts associated with big events, through to for example the impact of extreme heat on our networks, and severe flooding now incurring in previously low-risk areas.

As we transition to net zero, and increase our reliance on our electricity grids, we must also ensure resilience to climate change. In that context, Ofgem must set clear expectations that network companies must plan for the longer-term with a view to enabling net zero and resilience to climate change.

Our RIIO-ED2 Business Plan included a robust climate resilience strategy, updated in [2023](#). In addition, since 2018, SSEN Distribution (as part of the wider SSE Group) has structured its climate-related disclosures in line with the recommendations of the Taskforce on Climate-related Disclosures (TCFD). Climate adaptation is therefore deeply embedded in our decision-making, and we welcome the introduction of principles to guide this.

Principle 1 - We welcome the need to base our decisions on forward looking data, urging Ofgem to include this as a significant factor when DNOs consider asset replacement programmes.

Principle 2 – High impact, low likelihood extreme events are increasingly difficult to navigate with short term deployments like flood defence equipment likely to be increasingly required.

Principle 3 – We welcome Ofgem's intention to ensure adaptation plans are correctly valued and would encourage a fair and consistent cost benefit analysis process to be developed collaboratively through Ofgem working groups.

Principle 4 – We also welcome the recognition that investment decisions should be fit for purpose and consider the increased vulnerability of the system to climate risk and would encourage Ofgem to ensure that this should be built into any revision to the NARM methodology.

Ofgem should give greater thought to how climate resilience and adaptation will fit in to the decision-making framework for RIIO-3. We would welcome greater clarity on how evidence presented by companies of investment needs driven by climate resilience will be accounted in the EJP, CBA and cost assessment framework. For SSEN Distribution, based on the risks we currently face, we expect that our RIIO-3 business plan would require dedicated climate adaptation spend associated with flooding protection, tree-cutting and underground cables (particularly affected by extreme heat and/or ice loading).

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

Distribution network companies already do a lot of work in this space, as evidenced by the climate resilience strategies included in the RIIO-ED2 business plans. The RIIO-3 framework must build on this, and there are a couple of key points to consider in that context:

- **Establishing a joint understanding of what is an acceptable level of resilience:** Ofgem must be clear on (i) the level or base standard of resilience it is prepared to fund on behalf of consumers and how this is to be funded, and (ii) what evidence and justification are required to demonstrate the need for additional investment that goes above and beyond the current base standard of resilience.
- **Ensuring the wider price control reflect impacts of climate change:** the price control must recognise the wider impacts that a changing climate is already having on our network and how this interacts with various mechanisms. For Distribution, this means identifying more flexible funding streams to deal with genuinely unexpected and unpredictable issues and reviewing the Interruptions Incentive Scheme (IIS). The IIS should not create a situation where companies are penalised for events that are genuinely outside of their control, and there is a risk that the current mechanism could drive inefficient short-term behaviours to the detriment of longer-term efficient investment in the networks.

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?

Our RIIO-ED2 Business Plan included a robust climate resilience strategy, updated in [2023](#), and we are therefore supportive of resilience strategies across all sectors. We have already updated our stakeholders on progress against our RIIO-ED2 resilience strategy.

Ofgem proposed the introduction of resilience metrics in RIIO-ED2. At the time, we recognised that there would be some benefit to this work going ahead, but requested additional information on what would be included in the scope, what the added value would be, and how this would interact with existing mechanisms designed to hold DNOs into account. Finally, any additional working groups should build on existing activity. The ENA Climate Resilience Working Group, was set up to satisfy the Ofgem requirements in their RIIO ED2 SSMD, with the development of metrics being a key part of that groups Terms of Reference. However we would welcome further clarity on scope and deliverables to ensure value add.

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

We agree with the approach to align the development of the resilience metric with the development of resilience standards recommended by the NIC and the amended timeframe on metrics. However, we note that this timeframe contradicts with Ofgem's intent to develop the metric in time for RIIO-3.

Early clarity is important on the timeline for when this metric is required, as well as how it will be used and any reporting requirements. This will ensure it is developed as effectively as possible. If the metric is intended to be used as a comparator between DNOs as a level of performance, then a normalisation factor should be applied based on the actual climate impact experiences in each region.

We agree that it is important to align the development of the resilience standards and metric to ensure that network company progress and performance can be monitored in this area. However, we would again highlight the need for actual climate impact in each area to be taken account of for this to provide a true representation of performance.

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

We agree with Ofgem's decisions not to introduce specific performance targets for workforce resilience. As identified by Ofgem, workforce resilience is critical to enable us to deliver for our customers, and meet local and national net zero ambitions. We are supportive of any industry-wide activities that can further support our understanding of this shared problem.

Truth telling and efficiency incentives

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

On the BPI, overall we support the objectives proposed by Ofgem. However, we would highlight that these objectives can be conflicting, and clear guidance that considers the overall aim of the incentive will be essential. The BPI should focus on incentivising ambitious business plans of a high quality that demonstrate a deliverable commitment to investment in the network to facilitate net zero. In this time of rapid network investment, reward must not be focussed on lower costs alone and companies must be incentivised to submit realistic, high-quality costs that represent genuinely ambitious proposals. We consider 'truth telling' to be unhelpful and inaccurate terminology to use for this incentive and suggest that a more appropriate term would be 'business plan quality' or simply continuing with 'business plan incentive'.

We support the objectives proposed by Ofgem for the Totex Incentive Mechanism (TIM); efficient delivery of outputs and sharing the benefits and risks of out/under performance are important safeguards for customers. Similar to the BPI, there must be a recognition that evolution is needed given the current macro-environment, and the focus must be on delivering ambitious net zero plans.

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

We support Ofgem's proposal to retain stage 1 of the BPI. Clarity on the minimum requirements for the business plan and guidance on how these will be assessed will ensure that we are able to provide a full and complete business plan that is in line with Ofgem's expectations whilst avoiding the effort and resource of providing additional information that Ofgem may not need. This should include simplification and rationalisation of the many minimum and baseline requirements included in the RIIO-ED2 BPI. This should also help ensure that there is consistency in the type of information that is provided to Ofgem across the network companies and therefore make for simpler review and comparison. As a general rule, information should only be required where Ofgem has a clear purpose for this.

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

In comparison to an 'in the round' assessment of cost forecasts, the higher/lower-confidence approach has a more objective assessment standard and provides more transparency to network companies on the method of assessment. The outlook for RIIO-ED3 is very different to RIIO-ED2 in terms of the level and pace of network investment needed. This will naturally make preparing accurate cost estimates significantly more difficult; the assessment must take account of this increased difficulty and we would therefore propose that in RIIO-ED3 lower confidence costs should not automatically attract a greater risk of penalty.

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

We successfully secured two CVPs in RIIO-ED2 and consider CVPs to be a positive reputational incentive to deliver additional value for our customers and communities, where network companies have gone beyond the benchmark. Given the low success rate of CVPs in RIIO-ED2, with only 3 out of 4 rewarded, if CVPs are to be retained then there must be an improvement in process guidance on what is required and expected for a CVP to be successful.

An alternative to retaining CVPs within the BPI could be to establish consumer value added projects are part of a separate PCD. This could simplify the BPI process whilst retaining the incentive on network companies to identify projects that will add additional value for consumers. Another alternative would be for Ofgem to propose key specific themes or areas for network companies to propose consumer value add projects. This would drive network companies to consider areas where more can be done for customers and drive some competition between network companies to do so. Removing the concept of CVPs altogether could disadvantage consumers overall as the opportunity to identify and fund those projects that go above and beyond for consumers would be removed.

Ofgem's alternative of an 'in the round' assessment of business plan ambition would require the use of regulatory judgement which risks a lack of transparency. If this was to be implemented then there must be very clear guidance to network companies on Ofgem's expectations and means of assessment, including how any additional value for consumers would be assessed.

As noted above, the BPI should reward companies that propose ambitious and realistic long-term plans to achieving net zero. These plans should be developed with local communities and may span more than one price control period.

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

Our current view is that the size and strength of the BPI in RIIO-ED2 remains appropriate for RIIO-ED3. However, we note that there were very limited rewards earned by network companies under this incentive in RIIO-ED2 and there appeared to be a greater risk of penalty. This should be rebalanced in RIIO-ED3 to ensure that companies are appropriately rewarded for submitting ambitious, high quality business plans.

We do not consider it appropriate to introduce a financial penalty for all cost forecasts higher than Ofgem's benchmark. This risks perverse incentives as companies may try to avoid financial penalty by submitting unrealistic cost forecasts. As above, we would also note that in the current environment, historical costs are no longer an indicator of future costs, and it is therefore not appropriate for lower confidence costs to automatically attract a greater risk of penalty.

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

As detailed in our responses to the questions above, we consider an evolved BPI to be a suitable approach for RIIO-ED3. The basic principles of the BPI are appropriate and the focus should therefore be on improvements and adaptations based on learnings from RIIO-2. At this stage, it will also be difficult to develop and introduce a whole new business plan incentive.

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?

There are pros and cons to each of the proposed approaches. The key point is to ensure that the balance of risk and reward is appropriate, which may require a different approach in RIIO-3 in the context of Net Zero.

The CDIR approach is more complex, however has more objective standards of assessment. The defined formula creates greater transparency over the methodology and companies will have a better understanding of how to meet the requirements. Compared to the 'holistic' approach taken by Ofwat, the CDIR-based approach can give clear feedback to network companies to allow them to update evidence and ensure the requirements are met.

Ofwat's 'in the round' approach is too opaque and does not provide clarity to network companies on the assessment that will be undertaken, making it difficult to ensure that requirements are met. We would note that the IQI is overly focussed on submitting low costs vs accurate costs when in the current environment the focus must be more on high quality ambitious costs that demonstrate a clear and deliverable plan to deliver net zero.

Fixed sharing factors have the benefit of simplicity and there are also benefits to decoupling cost confidence from sharing factors, particularly in the current environment.

Our view is that CDIR and fixed sharing factors should be further explored in the context of RIIO-ED3.

[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?

In principle, we support the concept of the Net Zero Re-opener, but note that it has not been triggered. Price control mechanisms should have a realistic prospect of being utilised to be meaningful.

As our local communities make the transition to net zero, we think the Net Zero Re-opener could provide opportunities to support more local activities that will deliver genuine value on the ground. This would require widening the scope of the re-opener, and the opportunities for parties other than Ofgem to trigger. We think this should be explored for RIIO-ED3, with potential interlinkages to the RESP model and process.

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?

The UIOLI was not introduced for RIIO-ED2. As distribution networks play an increasingly important role in delivering net zero right to customers' doorsteps, we think Ofgem should explore introducing

this mechanism in Distribution. This could include consideration of alignment with the RESP model as described above for the Net Zero Re-opener.

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 reopener in RIIO-3?

We have no specific comments on the NZASP for GD and GT.

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

We have no specific comments on the NZASP for GD and GT.

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?

We agree with the proposal to retain the CAM for RIIO-3 but also note that it has not been used in RIIO-2. In previous consultations on the CAM we have highlighted that its operation is currently too restricted. In particular we think that the CAM should be available for new whole system projects, not just to reallocate funding for existing projects.

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

The priority should be to ensure that the ability for network operators to recover costs associated with physical security is still clearly captured.

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

We are broadly supportive. As noted in our response to questions on climate resilience, a flexible approach to funding resilience challenges, in a way that still protects customers is required going forward. Introducing a broader resilience re-opener will support this flexible approach, but sufficient clarity must be provided on the scope of the re-opener to ensure that network companies can make use of it, and on interactions with other mechanisms in the price control.

In addition to the potential activities in scope outlined by Ofgem in paragraph 8.50, we think new storm response measures and telecoms resilience (related to PSTN switch-off) should be captured. The exact scope of the mechanism should be reviewed in the context of RIIO-ED3 specifically.

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?

We generally agree with retaining an opex escalator for RIIO-3 and that it is important for Ofgem to ensure that changes to operational costs driven by capital investments are funded adequately and that there are no gaps in funding network company activities. We do however think that it is important that cost reporting is proportionate and the proposed development of the opex escalator to reduce any overlaps and/or gaps in funding does not lead to unnecessary or onerous reporting for network companies. Additionally, it is important to note that the RIIO-ED2 opex escalator has yet to be tested and the methodology should be reviewed for RIIO-ED3 in light of any lessons learned in RIIO-ED2.

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

Reporting requirements are already significant in RIIO-ED2 and DNOs, and we have yet to have any projects funded through UMs. This excludes cyber which is subject to stringent PCD requirements which go well above the original policy for PCDs in RIIO-ED2.

We urge Ofgem to exercise caution in creating new requirements in addition to existing reporting requirements, PCDs, and close-out mechanisms. Any new reporting requirements will need to have a clear purpose.

In RIIO-ED3, there will be more effective ways of monitoring delivery of net zero related spend, through the introduction of the RESP model. We believe that the RESP and associated process could provide a helpful feedback loop and ensure companies are held to account for delivery.

We do not agree with Ofgem's proposal to reduce allowances under UMs where companies are found to be repeatedly providing inconsistent data against consumers' interests. It is not clear what is intended by this and what problem Ofgem is looking to solve that cannot be solved through other mechanisms, and through greater clarity on behalf of Ofgem on baseline requirements and expectations.

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?

RPEs

We broadly agree with the retention of RPEs for RIIO-3 and that the approach taken in RIIO-2 remains in principle appropriate. However, we continue to have concerns with the nature of the indices used in RIIO-ED2, and the extent to which these accurately reflect the cost increases we are experiencing day-to-day. One additional positive development for the process would be to request network company RPE justification during the Business Plan submissions through the BPDT. This was the approach taken in RIIO-ED2 and would ensure that conversations around RPEs are started early and woven through the price control setting process.

Ongoing Efficiency

Our view is that Ofgem should ensure that the limitations of calculation methods for ongoing efficiency targets are acknowledged and taken into account when setting any target for RIIO-3 and ensure that data used in said calculations is based on the most up-to-date productivity and market forecasts.

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

RPEs

We generally agree that RPEs should be applied to re-opener applications. However, depending on the assessment method (ex ante vs. ex post) RPEs may already be built into cost submissions. In this case, different approaches may have to be considered depending on the re-opener application in question and there should be clear methodology set out by Ofgem from the start of the price control if this is implemented.

Ongoing Efficiency

We do not agree that there would be a sound methodological approach to apply any ongoing efficiency targets to re-opener applications. Any in-period re-opener application made to Ofgem would be subject to changing market conditions compared to when any efficiency target was originally set and there would be significant data limitations given that business plan submissions could be a few years old at the time of re-opener submission. We would not be supportive of Ofgem taking a broad-brush approach of applying an ongoing efficiency target developed at the start of a price control to re-opener applications potentially made years in the future. We also do not agree that recalculating an ongoing efficiency target in-period for discrete re-opener applications would be proportionate to the funding being provided to network companies.

Cyber security

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

Cyber remains a critical risk for us and the price control framework must provide appropriate funding for this. We are supportive of the broad approach to cyber, including the retention of a re-opener mechanism which is not subject to a materiality threshold. Ofgem will need to take this into account when merging the cyber-security re-opener into a broader mechanism.

The RIIO-3 process provides an opportunity to simplify the cyber-resilience framework. This will need to be considered in full for RIIO-ED3 but should include:

- Consideration of what is funded through the baseline: Ofgem only funded years 1 and 2 through the baseline, despite companies putting forward a full plan. This means that a re-opener needed to be introduced in the very first month of RIIO-ED2.
- Clarity around use of PCDs and UIOLs and simplification of the overall framework: this should include a review of the materiality applied to PCDs to align with the rest of the price control framework and a review of the reporting requirements to ensure these are proportionate.
- Clearer licence and guidance: to include all aspects of the mechanism. Since the licence and associated documents have been drafted, Ofgem has introduced a new concept of "triggered risk" which is not codified in the licence or associated guidance.

Innovation

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 support the proposal to retain a flexible allowance, as it enables us to be more flexible in undertaking innovation projects which meet the needs of our stakeholders and the business. This allows us to be more responsive to local stakeholder needs and allows us to better manage resources to improve the overall effectiveness and efficiency of our innovation portfolio. A flexible fund such as NIA is essential to allow licensees to develop an innovation portfolio which addresses the needs of a broad spectrum of stakeholders, a wide range of topics and importantly consider innovations which are at differing stages of readiness.

Having a flexible allowance is essential to accommodate variations in timing, partnerships, and topics, all of which contribute to the successful implementation of innovation projects. This allows us to better manage the wider innovation portfolio to deliver benefits for consumers and support SSENs role in facilitating the transition to Net Zero. The flexible approach also allows SSEN to support the transition of these innovation projects into the wider business, thus realising benefits.

For example, in RIIO-ED1 we realised over £67m of efficiencies from the deployment of innovation. From the NIA portfolio we deployed innovations such as LiveLine Tree Felling, reducing CI/CMLs from planned supply interruptions; Remotely Operated Forestry Mulcher, improving safety and efficiency of undergrowth clearance; LV Automation, reducing CI/CMLs caused by transient faults; and Constraint Managed Zones, resolving local constraints without the need for reinforcement. Overall, we avoided over 413,000 tCO₂ and over 500,000 customer interruptions. Our Active Solutions Deployment programme helped us to procure 470MW of flexibility for the management of network constraints and fault support. Further details are included in our recent Annual Innovation Focus Report [SSEN-innovation-focus-2023-25Oct.pdf](#)

A streamlined application and monitoring process can enhance the effectiveness of the flexible allowance, along with setting clear expectations of the outputs will ensure that it remains a valuable tool for supporting innovation within the energy sector.

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 agree with the proposal to retain a competitive network innovation funding pot (such as the Strategic Innovation Fund). This has enabled us to successfully execute impactful large-scale and long-term projects from LCNF Tier 2 and the Network Innovation Competition including projects as TRANSITION, SAVE and My Electric Avenue.

SAVE and My Electric Avenue were LCNF Tier 2 projects that were started in DPCR5 and finished in the early stages of RIIO-ED1. My Electric Avenue focussed on modelling the uptake of electric vehicles in residential areas to understand growing demand on networks. These techniques are now used in the construction of our DFES, which we produce to forecast demand growth on our network and underpins much of our Load Related Investment planning activities. SAVE looked at the impact of energy efficiency measures on reducing aggregate demand on the network. This trialled measures across around 8000 homes in and around Southampton, to demonstrate there is real value in residential demand reduction and paved the way for the creation of residential flex markets. The SAVE project also informed the energy efficiency aspects of the DFES forecasts.

TRANSITION was a leading innovation project informing the requirements of a DSO facilitated flexibility marketplace helping to deliver a smart grid that can support a Net Zero energy system. It demonstrated how DSOs could operate as a Neutral Market Facilitator to find and delivery flexibility services. It also led to the creation of the SSEN Flexible Solutions team which carries out this work as BAU.

TRANSITION undertook trials in Oxfordshire in conjunction with the Local Energy Oxfordshire Project (a UK Industrial Strategy funded project) which significantly enhanced the overall learning of both projects. [Home - Project LEO \(project-leo.co.uk\)](#). The learning from these projects and other related NIA projects have been instrumental in shaping our use of flexibility which is now a fundamental part of our BAU operations, with our latest round of flexibility procurement securing 473Mw of flexibility across multiple zones on our network. [SSEN confirms £30m deals to drive forward its flexibility services - SSEN](#)

Project RaaS (Resilience as a Service) is focusing on delivering operational resilience as a commercial service. This hopes to demonstrate that market-based solutions can be used to enhance security of supply for isolated communities prone to power outages. This is particularly important for locations

where traditional options are prohibitively expensive or potentially unviable, such as the Highlands of Scotland. [RAAS](https://www.raas.co.uk) | [SSEN Innovation \(ssen-innovation.co.uk\)](https://www.ssen-innovation.co.uk)

Without the significant levels of funding allowed by the competitive innovation funding schemes, projects such as those detailed above would not have been undertaken, nor would there have been the level of cross industry collaboration that these projects elicited. We are keen to maintain this and further build our portfolio of projects, however, we need to ensure that the overall application process remains as efficient and effective as possible.

We feel that there is an opportunity to improve the current operation of the SIF, to improve effectiveness and make the scheme more responsive and agile. Combining the Discovery and Alpha stages with a stage gate between the two would reduce the administrative burden on those applying while still allowing the appropriate level of oversight of the projects. This would reduce costs and potentially broaden participation.

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?

We support the idea of adapting the structure of the price control innovation funding to more effectively address whole system challenges and align strategically with other public sector initiatives. However, this should not detract from the need to innovate within the electricity network to ensure it develops to continue to enable the low carbon transition. Therefore, ensuring that the funding structure enables the development and implementation of a balanced portfolio of innovation projects is vital. This will allow us to innovate across a broad range of subject areas, with a wide variety of partners and participants to deliver projects with differing levels of readiness. This balanced portfolio should enable the best whole system solutions to be progressed and implemented.

In order to create a better focus on the problems that matter, we propose that a government body such as DESNZ or equivalent to set “goals or outcomes” from innovation to allow for network companies to better consolidate and progress the outcomes from our projects. These goals then drive focussed innovation while allowing alignment with other funding streams allowing the potential to deliver enhanced value similar to how the collaboration between LEO and TRANSITION enhanced the outcomes of both projects.

These earlier collaborations have in part only come about due to an alignment in the timing of the funding competitions, in many cases this doesn’t happen and the opportunity is lost. An agency such as Innovate UK could help highlight different opportunities to help bring together parties. Aligning projects from different funding streams allows a broader array of ideas to be considered, for example ‘behind the meter’ initiatives are difficult for network companies to drive. One factor that needs careful consideration is how to align timings of the various initiatives to best achieve value.

Furthermore, we recommend amplifying support by fostering collaboration with the ENA and EIC, thereby enhancing the overall effectiveness of the initiative. Consider incorporating timing alignment strategies to streamline the pipeline and ensure efficient progression.

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 propose that price control funding for innovation streams such as the NIA should remain broadly the same in real terms and subject to similar assessment of business plans as RIIO-ED2. For competitively funded innovation we suggest that there is a real term increase in funding as these larger, far-reaching projects are more likely to bring about the transformational change that will really make a difference to the speed and equity of the decarbonisation of Great Britain. For both streams, focus should be given to ensuring that the projects undertaken are valuable and can create real change for the whole industry and for society. This can be done by ensuring that challenging but non-restrictive themes are set for projects, improving entry to the market for new innovators and easing the roll out of new innovation into business as usual.

Our stakeholders anticipate transformative projects as strides toward realizing the vision articulated in our mission statement: "Powering Change With Every Connection." These stakeholders invest in our leadership role on the journey to Net Zero, requiring the ability to fund substantial projects that align with the transformative changes we are committed to achieving. Our research for RIIO-ED2 on willingness to pay also reveals a resonance among consumers with the attitude of supporting initiatives contributing to the shift to Net Zero. Initiatives such as reducing SSEN's business carbon footprint, facilitating low carbon heat pump roll out, and promoting new electric vehicle connections consistently rank high in consumer value. Collectively, this underscores a clear desire from stakeholder groups for a move towards innovative solutions for a sustainable future, and this is reflected in the projects we undertake.

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

SSEN have a long track record of working with innovators to deliver new products and services, stretching as far back as the LCNF innovation funding incentive. In RIIO-ED1 we had over 130 individual collaborations across over 80 projects including 19 small and medium enterprises and innovators, 35 partnerships with technology providers, OEMs, transport companies and energy suppliers, 31 working relationships with government bodies, not for profit organisations and academia, 6 collaborations with fuel poverty and carbon action groups, and 40 collaborative engagements with other DNOs.

We find no imperative to extend the scope of innovation funding, given its existing high level of inclusivity and accessibility. Therefore, facilitating direct access to third parties is unnecessary and may further complicate an already complex issue.

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

We agree that early-stage innovators would benefit from additional support when approaching DNOs and/or submitting ideas for SIF projects. The challenge of understanding the complexity of the frameworks that DNOs operate under, for those from outside the industry, should not be underestimated.

We do not support the idea of the creation of a new entity to deliver this, we believe that existing initiatives such as the Energy Innovation Centre (EIC) already deliver much of this functionality. The EIC was created by the joint efforts of a number of DNOs and already provide guidance and assistance to innovation companies that wish to enter the energy market. Innovate UK administer the SIF funding stream. They are arguably in prime position to understand the challenges faced by

early-stage innovators looking to enter into energy innovation projects. They also have a stated aim to help UK businesses to grow through innovation. Their remit could be expanded to take a role in educating third parties about the best way to get involved.

There are also other accelerators in existence who can assist early-stage innovators. There is no requirement to introduce a new entity into this arena. We should not be looking to introduce additional complexities to a programme which is, to some extent, looking for ways to simplify. Any additional support put in place for innovators must complement the existing innovation streams and facilitate entry into those.

We would be keen to understand which groups feel that they have been excluded from the innovation streams and why so that we can, as an industry, put measures in place to ensure that there is fair access to those who can deliver value to networks and their customers.

It may be that some innovators are proposing solutions to problems that networks are not trying to solve. We would support a proposal where network companies sponsor an idea brought forward by an innovator which is not at the required level of development, which could then be put forward for an incubator type arrangement, not funded by networks, where support and guidance could be given to develop a solid proposition on the understanding that the sponsoring network company will adopt the proposal for inclusion in a future innovation project. Thus, de-risking emerging technology for networks and supporting early-stage innovators in developing products.

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?

We do not agree that funding any accelerator should be the responsibility of the network companies, and their customers, when the benefits do not directly accrue to them. Accelerators should be used to de-risk products before network companies and their consumers invest in them.

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?

We have not refrained from implementing or seeking funding for projects due to the five-year structure of price control. However, the rollout of certain projects has been delayed due to this price control framework, subsequently stalling the realisation of the societal benefits that they may offer. One example was our RESOP project, which aimed to assist us in supporting local authorities to develop delivery strategies for Local Area Energy Plans which will integrate with our network. Although funding from RIIO-ED1 enabled us to initiate the project and develop the Local Energy Net Zero Accelerator (LENZA) tool, we had to await RIIO-ED2 funding for its utilisation. Consequently, the local planning process to facilitate Net Zero was not as prompt as it could have been, posing a concern given the time-sensitive nature of achieving Net Zero targets.

Innovation funding allows the initiation of projects that would be unlikely to receive BAU funding but as funding of the rollout of the products of these projects is in addition to what was asked for in the price control business plans, there are times when implementation is delayed and therefore so is the attainment of benefits.

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 have already responded to the consultation on the Proposal to Introduce the FRS. To briefly reiterate our points here:

We broadly support the exploration of new approaches to regulation and agree with the potential use of the FRS as an additional means of embracing innovation within the energy industry and evolving the regulatory framework. However, it is important that the process underpinning the FRS is fair and robust, and that any FRS trials are used appropriately.

We would like to understand the situations in which the FRS would or could be used and for what purposes. It is not immediately obvious that NIA/SIF funding is appropriate, and it may be that another source of funding should be made available for this.

Separately, we believe that Ofgem could do more to help innovators navigate the existing regulatory frameworks by proactively publishing guidance or insight papers clarifying how different business models can navigate the regulatory framework as is. This would help to provide increased regulatory certainty to many innovators currently developing new propositions within the energy market.

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

We have addressed this question in our response to the consultation on the Proposal to Introduce the FRS.

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?

It is our view that there has been a robust implementation of numerous innovation-funded projects. Focusing solely on fault identification, we have successfully introduced innovative technologies like the LVUFLT, Megger Cable Sniffer, and HAYSYS Phase Identification Unit (PIU), all of which are designed to enhance fault-finding efficiency and consequently minimize the time that consumers are off supply. Our project initiatives extend to flexible solutions, DSO, investment planning/DFES, LV monitoring, LIDAR, Veg Management, LENZA, and Powertrack, illustrating a comprehensive and impactful utilization of innovation funding.

As stated in Question 54, at times the timing of rollout can be affected by timing and price control cycles however, we feel that a significant amount of value has been, and continues to be delivered by the innovations developed by NIC and NIA and their predecessors.

As we have stated in the past, innovation is an iterative process, and it must be understood that not every project will result in a product that can be rolled out. This is particularly true for development of DSO capabilities, and other less tangible concepts, where a number of incremental innovations can combine to produce a product.

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

We would welcome a flexible and pragmatic mechanism that allows innovation roll out into BAU.

We feel that there are existing mechanisms that can be harnessed and enhanced with some additional support.

Some innovations have a clear business case that will see expenditure paid back within the existing price control. These should be funded as BAU activities. For others, that meet the criteria, there are existing reopener mechanisms that should be able to be harnessed for the funding of innovation rollout. For innovations that do not fall into the categories above, an additional allowance would help to accelerate innovation roll out.

A use it-or-lose it allowance would work well in this instance. DNOs could evidence the rationale for deployment and expenditure with a robust benefits case submitted ahead of roll out. Any unspent allowance would incur costs to consumers and DNOs should be allowed to retain the benefits of innovation until the end of the following price control period. In return DNOs should be required to report on the performance of innovation deployments at the end of the price control period.

This funding could help to bridge the gap to the start of the next price control period where allowances could be part of the networks allowed revenue.

Data and digitalisation

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

In advance of the timeline, it is critical to have a clear view across Ofgem and networks (informed by stakeholders) on the end outcome for modernising regulatory reporting. This can then drive a set of requirements for systems and data processes which can be used to inform timelines. At present there is not sufficient information on scope to comment on the timelines provided. There is a risk that this work gets stuck at a conceptual phase, and we consider that it needs to be grounded in some clear use cases/worked examples.

With this in mind, we consider that the focus should be more on an integrated timeline between the Data Sharing Infrastructure (DSI) and the desire for modernised reporting. We need to move from the conceptual to the practical and quite quickly with the DSI to enable the information sharing infrastructure, standards, classifications, and security principles and iteratively plan and release aspects of digitally automated regulatory reporting.

We are already making significant investments in our systems and data processes to improve the way we can extract and use regulatory performance data. We are keen to ensure that our thinking around this feeds into Ofgem's work and would welcome the opportunity to engage further with the Ofgem team to talk through our approach. Once we have a greater understanding of scope and objective, we would be happy to trial specific aspects of reporting to help set a blueprint for this work (see response to OVQ60 for ideas on which areas to trial). We believe that this type of practical trial will be the best way to move this work forward and validate the benefits of digitalising reporting.

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?

In theory, transitioning from Excel-based submissions to a more modern approach involving a centralised data repository (structured database + API etc) could ensure real-time, secure, and standardised data access, significantly reducing manual processing and potential errors. By adopting such a system, coupled with a commitment to data governance, security protocols, and continuous stakeholder engagement, we could streamline regulatory reporting, improve data integrity, and better adapt to evolving regulatory requirements. This approach would not only align with modern data management practices but also foster a culture of innovation and efficiency within operations.

However, we need to bear in mind that the RIGs contain a vast amount of guidance and networks are required to have audited processes in place to comply with that guidance. This often requires us to review and amend the data initially recorded in systems, in order to align with the RIGs. Therefore, we need to caution against real time data access and compliance with the type of processes currently in place. In addition, if an aim of the project is around efficiency of reporting, we also need to ensure that we look at the total volume of information currently collected and how it is used by Ofgem and stakeholders. It will cost money to digitalise the reporting process and rather than digitalise the current requirements, we need to first look at whether all current requirements are still needed.

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

We support the approach of starting within an initial area of reporting to develop a working prototype/blueprint for how we can digitalise.

We think there would be more benefit around starting with some of the quality of supply (QoS) information. This is highly relevant for customers and stakeholders and more suited to regular/real-time updates than capex projects which span multiple years with outputs for customers only delivered at the end of the project. If we could create an efficient and transparent exchange of QoS regulatory reporting this could standardise a huge amount of this critical data set.

Appendix 2 – SSEN Distribution Response to Gas Distribution Annex Questions

GSQ7. What are your views on our proposed approach for managing uncertain costs relating to regional energy strategic planning?

The proposal is to account for any costs through the Net Zero re-opener. This would require some changes to the mechanism (as per our response to OVQ35), such to widen the reopener such that other parties could trigger it and thus make its use a credible route to supporting local ambitions for Net Zero. We in principle support this, and would like to see specific guidance on how RESP driven projects can be advanced as the detailed design of RESP emerges this year; for example is there an interaction between projects, regional plans, and subsequent access to UM funding.

GDQ28. What are your views on our proposed position on the role of GDNs in relation to vulnerability, and how they can support a just transition to net zero?

We continue to consider that network companies have an important role in relation to vulnerable customers. A whole system approach to vulnerability is critical to ensure that all aspects of vulnerability are addressed, with multiple different parties have important parts to play, including network operators.

The key will be in defining the specific role of network companies in the overall work with vulnerable customers to ensure there is clarity on responsibilities and to avoid duplication, ensuring the best outcome for customers in vulnerable circumstances. This was a key point of debate throughout the RIIO-ED2 process. This should ensure more in-depth consideration of the role of the DNOs in the net zero transition.

GDQ29. What are your views on our proposal for GDNs to develop individual and joint-GDN vulnerability strategies?

Vulnerability strategies are an important part of the overall framework for ensuring that network companies have a well thought through long term approach for supporting customers in vulnerable situations. There are pros and cons to individual and joint vulnerability strategies. Individual strategies can make it more difficult to implement changes that are common across the network companies which can restrict the implementation of changes that would be positive for customers. On the other hand, a joint strategy can result in delays to implementing changes and can stifle innovation amongst the DNOs in developing and implementing ideas for supporting vulnerable customers.

Our view is that vulnerability strategies should seek to implement the overall principles and objectives set out in Ofgem's vulnerability strategy, with sufficient flexibility to allow network companies to take innovative steps to deliver on these principles. Strategies remaining focussed on a set of principles rather than specific details also avoids them becoming outdated quickly as customers' expectations and needs can change rapidly. This should encourage the sharing of learning and best practice across the network companies and allow good innovations to be readily replicated by other network companies.

GDQ30. Do you agree with our proposal to retain the RIIO-GD2 vulnerability minimum standards is sufficient to ensure customers in vulnerable situations are protected and treated fairly?

We agree with approach to continue with this. As with other minimum standards, there may be an opportunity to streamline these and ensure greater clarity.

GDQ31. What are your views on our proposal to retain the use of the VCMA UIOLI allowance, on the alternative option to incentivise vulnerability through an ODI-F, and on which activities to support vulnerability could be funded through baseline allowances?

For electricity distribution, we support the continuation of the vulnerability incentive in principle, as we consider this to be an appropriate measure to drive DNOs to deliver for vulnerable customers. However, we are still very early in the ED2 period to establish whether the details and mechanisms within the incentive are working effectively, however we consider the concept of a financial incentive in this area to be appropriate. Learning should be taken from ED2 to further develop this incentive for ED3.

GDQ35. What are your views on the options we've set out to incentivise customer satisfaction during RIIO-GD3?

Customer satisfaction scores are very high in the industry, demonstrating that network companies have continued to make significant improvements. However, maintaining this high performance is difficult, requiring continued evolution to adapt to our customers' ever-changing expectations and priorities; being stagnant in this area would rapidly result in reduced scores. We therefore consider that ongoing change should continue to be driven by the opportunity for reward. Typically, reward earned in this area is re-invested in customer satisfaction to continue to drive improvements for customers. A penalty only incentive could risk network companies avoiding making innovative changes for customers for risk of falling into penalty with no potential reward to incentivise taking the risk.

Incentive targets alone do not always drive behaviours that result in truly valuable outcomes for customers and can result in comparisons between DNOs focusing on these single measures rather

than wider comparators that may be more representative of behaviour that genuinely results in customers benefits.

GDQ36. What are your views on how the complaints metric can ensure customers' complaints can be resolved quickly and effectively?

We agree with the proposal to retain a static rather than dynamic complaints target. We agree that a fixed target would be sufficient to maintain recent improvement in complaint handling and this gives greater clarity for network companies. Complaint resolution is one area where performance is less likely to vary across the sectors and it may therefore be appropriate to consider complain resolution at industry rather than sector level.

We support the proposal to introduce additional indicators for the intervening periods between D+1 and D+31. This should be reported on a reputational basis. This should be worked through in more detail for ED3.

Appendix 3 – SSEN Distribution Response to Electricity Transmission Annex Questions

ETQ18. Are the current definitions for excluded and exceptional events sufficient, or should they be changed for RIIO-ET3?

ETQ19. Should Ofgem add a materiality threshold for exceptional events?

As detailed in our cover letter and responses to the questions relating to climate resilience, we have seen the significant impact of climate change on our network over the last few years. Climatic conditions have changed significantly since the Interruptions Incentive Scheme was introduced, with a continued increase in the frequency and severity of extreme weather making existing IIS targets increasingly difficult to reach. For RIIO-ED2, consideration must be given to a full review of IIS to ensure it remains fit for purpose and appropriately rewards the right behaviours.

As a minimum, this review should include:

- Target setting
- Definition of exceptional events
- Incentives for higher resilience by design
- Exclusion of exceptional events from daily average performance

Appendix 4 – SSEN Distribution Response to Finance Annex Questions

SSEN Distribution's views on the questions set out in the Finance Annex are aligned with those set out in SSEN Transmission's response. However, conclusions on topics such as asset lives, depreciation and capital structure cannot be formed until these are considered fully for RIIO-ED3 specifically, alongside the Business Plan and the macro-economic environment at that time.