



## Response to Ofgem Call for Evidence on the Electricity Transmission, Gas Transmission and Gas Distribution Business Plans for RIIO-3

### Independent Stakeholder Group reflections on the Business Plan published by SP Energy Networks

This response to Ofgem's call for evidence on RIIO-3 Business Plans is provided by SP Energy Networks' (SPEN) Independent Net Zero Advisory Council (INZAC).

The INZAC acts as the Independent Stakeholder Group for SPEN, as mandated by Ofgem in its Business Plan Guidance published on 30 September 2024.



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## EXECUTIVE SUMMARY

- The demands of the Net Zero Transition mean that SPEN has to propose an ambitious Business Plan for RIIO-T3. It has to make a step change in transmission investment and it plans to invest £10.6 billion in RIIO-T3 - three times more than the £3.4 billion in its RIIO-T2 plan. Its role has changed to focus on managing and expanding its network under a strategic spatial energy plan (SSEP) set by the new National Energy System Operator (NESO).
- The 'Independent Net Zero Advisory Council' (INZAC) is the SPEN Independent Stakeholder Group and works across both the Transmission and Distribution licences, to challenge on delivery of RIIO-2 commitments and on preparation and delivery of the RIIO-3 Business Plans. The INZAC also works intensively with SPEN representatives via 'Buddy Groups'.
- SPEN has a decentralised approach to stakeholder engagement, with a central team facilitating the sharing of insights and best practice, and Buddy Groups were able to scrutinise and challenge their counterparts within SPEN.
- The INZAC scrutinised and challenged the substance of SPEN's plans and took care to ensure that claims made were substantiated.
- The INZAC is fully satisfied that in developing its Business Plan, SPEN has engaged appropriately with customers and stakeholders and balanced their needs. It has engaged in depth, particularly with the workforce and supply chain, to ensure that the challenging Business Plan can be delivered efficiently and effectively.
- The INZAC believes engagement is not only about numbers but also about engaging with appropriate stakeholders using appropriate methods.
- Ofgem's compressed timeframe for RIIO-T3 affected the Business Plan preparation. For example, no consultation on the whole Business Plan could be undertaken (as had previously been done on Draft Business Plans) for this reason. Workstreams undertook their own consultations on their chapters/annexes as appropriate. We deemed this a satisfactory approach given the timescales.
- INZAC members and the Chair reviewed the Business Plan as a whole, during its compilation and when complete.
- The INZAC encouraged SPEN to launch an informal consultation post release to continue to seek feedback. SPEN responded well to this and has considered how to use the proposed plan to drive further engagement and insight.
- The BP is ambitious and challenging, but the INZAC believes the company has made comprehensive preparations.
- The INZAC has a continuing role to challenge SPEN, both under its own terms of reference and as the ISG. We identified several broader themes that will be the subject of continued challenge to support SPEN in making the step-change.
- To deliver this ambitious plan we encourage Ofgem to support SPEN and other network companies to ensure deliverability with regard to: measures on workforce, supply chain and equipment supply; providing clear guidance on open data; and working with networks to manage the connections queue.
- We would support a move from an Environmental Action Plan to a Sustainability Action Plan, as being more holistic and in line with other industries.

## **1 THE INZAC AND ITS ROLE AS ISG**

### **1.1 Independent Net Zero Advisory Council**

During the RIIO-2 business planning process, SPEN considered that it derived “significant value” from its Transmission Owner User Group (TOUG) and Electricity Distribution Customer Engagement Group (CEG). It decided to maintain a similar level of engagement in RIIO-3, working with an enduring engagement group, to seek stakeholder views to create Business Plans that deliver maximum benefit for SPEN’s customers, including vulnerable consumers in the SPEN network area.

As a result, SPEN formed the ‘Independent Net Zero Advisory Council’ (INZAC) to work across both the Transmission and Distribution licences, to challenge both on delivery of RIIO-2 commitments and on preparation and delivery of the RIIO-3 Business Plans. The INZAC and SPEN have a common purpose: to meet the challenge of enabling the transition to a Net Zero economy and meeting consumers’ expanded and evolving needs from the electricity network. For SPEN and the INZAC, all people and businesses who benefit from, or are connected to, SPEN's network are seen as customers: it is critical that their wants, needs and expectations, both for today and into the future, are understood and used to build a better Business Plan.

To achieve this the INZAC members must build an in-depth understanding of the company, but remain independent. The INZAC has found that SPEN highly values the independence and external viewpoint provided by the group and its members, and the group is set up to avoid the risk of ‘capture’. It is important to note that the INZAC has an advisory and challenge role and engagement with the group does not replace or replicate engagement with stakeholder groups, although some INZAC members bring experience of companies or sectors that are part of SPEN’s regular engagement process. A full list of members is included in the Appendix.

Through its Chair, Angela Love, the INZAC is ultimately responsible to SPEN’s Chief Executive, Nicola Connelly.

### **1.2 INZAC Subgroups and Buddy Groups**

The INZAC takes a whole-system approach, looking across the Distribution and Transmission licences. On specific issues it is split into two Subgroups, one with technical interest and expertise and the other with a customer focus. These are Chaired by Martin Kearns, Chief Electrical Engineer, EDF Energy, Nuclear Generation and Ashley Gunn, Consumer Policy Consultant, respectively.

The INZAC also works intensively with SPEN representatives via ‘Buddy Groups’, in which two or three INZAC members are able to take a ‘deep dive’ into specific areas of interest, and to provide challenge on the Business Plan, how SPEN has undertaken stakeholder engagement and used the insights gained.

SPEN has a decentralised approach to stakeholder engagement, with a central team facilitating the sharing of insights and best practice, and Buddy Groups were able to scrutinise and challenge their counterparts within SPEN.

Buddy Groups' areas of focus are:

- Policy & Regulation/Incentives & Competition
- Digitalisation & Data and Innovation
- Connections, Load and Whole System
- Stakeholder Engagement & Community Benefits
- Sustainability and Just Transition
- Deliverability and Workforce
- Non-load/Resilience
- Cyber (additional to Ofgem RIIO-3 requirements)
- Economics (additional to Ofgem RIIO-3 requirements)
- Customer Service and Vulnerability (non-T3 buddy group)

### **1.3 The INZAC as Independent Stakeholder Group**

In its Business Plan Guidance, published on 30 September 2024, Ofgem confirmed a requirement for network companies to establish an Independent Stakeholder Group (ISG), to provide challenge and scrutiny, both as SPEN develops its Business Plan and on an enduring basis in the delivery of its plan. After an assessment of INZAC terms of reference and capabilities, SPEN and Angela Love, the INZAC Chair, agreed that the INZAC could take on the ISG role (see the [‘Statement from ISG Chair’](#) submitted as part of SPEN’s Business Plan).

SPEN’s decision to set up the INZAC on its own initiative, and the positive relationships in the Buddy Groups formed in advance of the delayed RIIO-3 Sector Specific Methodology Decision (SSMD), meant the groups were able to respond quickly after publication of the SSMD in July. The INZAC’s broad remit means that it can take additional ‘deep dives’ in support of its challenge areas, in addition to those required by Ofgem, for example cyber and economics.

In the following sections, we summarise the topics we focused on, our conclusions on the Business Plan and examples of the many challenges we raised. All challenges to SPEN were captured in the INZAC Challenge Log, which is available to Ofgem on request. An overview of our approach to evaluating stakeholder engagement is shown below. We scrutinised and challenged the substance of SPEN’s plans and ensured that claims made were substantiated.

## Evaluating stakeholder engagement

In overview:

- We developed a Stakeholder Engagement (SE) Evaluation Framework for all Buddy Group focus areas and agreed this with SPEN. This ensured the INZAC would be provided with the information needed to assess SPEN's SE against the relevant points in Ofgem's Enhanced Engagement Framework, in particular how the engagement affected the T3 business plan. The formal Evaluation Framework set clear expectations for SPEN and the INZAC from the outset.
- We ensured that SE insights from previous engagement that were being utilised in the development of the T3 Business Plan were shared with each of the INZAC Buddy Groups.
- The framework allowed Buddy Groups to respond to SPEN's 'devolved' approach to stakeholder engagement while ensuring the INZAC's approach was both consistent across the groups and able to make an assessment across the Business Plan as a whole.

SPEN's approach is described in the Business Plan chapter 'Engaging with our stakeholders and supporting communities'. In summary:

- The SE approach was designed to be in line with SPEN's central SE Strategy (as published online). SPEN emphasised that the T3 SE built on Business As Usual (BAU)/pre-T3 SE and we challenged them on this area, as sharing of pre-T3 insights was patchy.
- We provided feedback and challenge on the BAU SE approach, including refreshing the central SE Strategy and developing annual SE plans.
- SE is devolved to the workstreams (SPEN term this 'embedded approach'), as the teams were seen as the experts in their topics and with their specific stakeholders. The central SE team played a co-ordination role, helping and advising workstreams on approach, engagement plans etc. Its role was to highlight overlaps between workstreams and to share learnings across teams (to combat the risk that workstream teams operate in silos). We challenged them on this area and were provided with examples of insights shared across the T3 process. SPEN developed the 'SE Insights Hub' in response to our challenge to build the cross-team sharing of SE insights into BAU.

The INZAC SE Evaluation Framework is available to Ofgem on request.

## 2 INZAC REFLECTIONS ON BUSINESS PLAN BY SECTION

### 2.1 Business Plan Section: What we need to deliver

*SPEN Business Plan p8-42*

#### 2.1.1 The network we need

*SPEN Business Plan p9-12*

The programme to deliver an expanding network in T3 was discussed by the whole INZAC and in four meetings with the Policy and Regulation Buddy Group. The topics included:

- **Increased investment:** SPEN has to deliver a multiple of any previous investment plan for the transmission system within the period.
- **Changing stakeholders:** government changes in Westminster and the Scottish Parliament coincide with huge change in the market and overall structure of the industry. It is not credible to talk to the same people and the Policy buddies discussed appropriate new groups in evolving the stakeholder strategy.
- **New bodies:** Mission Control for Clean Energy 2030 and GB Energy have both been instigated by the new Labour government. SPEN has to understand the structure, roles and potential impact of these new bodies and has started to form a working relationship with them.
- **Competition:** consultations on the detail of Competitively Appointed Transmission Owner (CATO) projects and announcements.
- **New roles and responsibilities:** NESO has responsibility over strategic network plans. This changes SPEN's relationship with communities from the overall decisionmaker on expansion to making the choice of the best option. The INZAC challenged on how this changes SPEN's engagement with stakeholders in host communities.

#### INZAC conclusions

SPEN has engaged with an evolving landscape of policy stakeholders, including in Westminster and Holyrood. It is building relationships with new sector organisations such as Mission Control and NESO. It is continuing to evolve and expand its engagement.

SPEN re-examined its engagement with communities following the change in its role in delivering new network investment and is evolving engagement to add context and new engagement channels.

#### 2.1.2 Load-related investment

*SPEN Business Plan p13-29*

The Buddy Group on Load-Related investment took a deep dive on challenging SPEN's engagement in four meetings. The strong relationship between the Buddy Group and SPEN has led to experience and knowledge being freely shared, challenges made and welcomed, and as a consequence, a Business Plan the INZAC can endorse.

The main areas of discussion were:

- **Connections Reform:** SPEN is seeking to establish transitional arrangements prior to the implementation of the TMO4+ connections process in 2025.
- **Transmission Economic Connections Assessment (TECA) Methodology:** in the knowledge that a significant portion of developments are unlikely to materialise, SPEN sought to grade the projects based on a set of criteria. The weighting of these criteria was discussed and adjusted following feedback from the group.
- **Experience from T2 stakeholder engagement:** developers are concerned about the connections queue. SPEN has used these insights in the development of the Business Plan, including a meeting for over 100 people on queue management and connections reform.
- **Strategic Spatial Energy Plan (SSEP):** the SSEP is still crucial. The INZAC pressed SPEN on the benefits of considering the potential outcome of NESO's SSEP for the Scottish transmission system.

## INZAC conclusions

The Connections, Load and Whole System plan is supported by the INZAC. Engineering Justification Plans were sampled, with focus on the technical basis and the proposed solution, and were found to be coherent. The magnitude of the load-related works is significant and has led to many discussions on its deliverability, supply chain strategy and skills. The SPEN team have provided a convincing and well founded assurances, and based on their previous experience, have given confidence to the INZAC that they can deliver it.

### 2.1.3 Increasing the resilience of our assets

*SPEN Business Plan p30-37*

The Buddy Group on Non-Load and Resilience met with SPEN four times and discussed:

- **AIS and GIS Switchgear Replacement Strategies:** a one-size solution is not feasible or appropriate.
- **Electrical Losses** in the transmission system.
- **Telecoms:** increasing deployment of optical fibre, whilst removing the strategic dependency on leased lines from third parties; installing additional battery chargers and cells to improve autonomy times; asset replacement and software upgrades.
- **Climate Change:** climate risks considered are extensive. SPEN scored risks, noting low-probability high-impact events are often overlooked.
- **Space Weather:** more should be done to understand their impact, given the issue's position in the National Risk Register.
- **A step change with respect to SF6 losses:** access to the network to repair leaks, whilst minimising the impact on customers, will be challenging but necessary. SPEN engaged with switchgear original equipment manufacturers (OEMs) to develop the strategy. Beyond identifying alternative solutions, they helped provide context on potential international changes in environmental legislation. The INZAC agrees that a wholesale changeover to non-SF6 solutions - removing switchgear that was not leaking or near its end of life - is neither necessary nor appropriate.



- **Regulatory reporting:** there are substations where SPEN reports to Ofgem, whilst an adjacent bay, owned by a generator, reports to SEPA. Potential regulatory divergence poses a risk to SPEN.

## **INZAC conclusions**

The INZAC supports the non-load and resilience plan. It has been developed with OEMs and users of the transmission system including customers and generators. The plan builds on the work carried out during T2 and is credible and realistic. The Engineering Justification Plans that are the building blocks of the plan have been sampled by the INZAC.

### **2.1.4 Maintaining the integrity of our network**

*SPEN Business Plan p38-42*

The ISG was not required to cover cyber in assessing SPEN's engagement with regard to its Business Plan. However, SPEN set up the INZAC to fulfil a broader role. The Cyber Buddy Group met three times with its SPEN counterparts.

The SPEN team has conducted extensive stakeholder engagement and built a large cyber team from diverse sectors with cyber expertise (nuclear, offshore oil and gas, finance etc). It has strategic roles in key forums (E3C, ENA, Ofgem bilaterals, etc) and created internal SPEN Cyber Forums to develop and share best practice.

Given the technical nature of this topic, the majority of the engagements internally related to SPEN Cyber leading the conversation but reflecting on the understanding/responses. The INZAC's influence on the Business Plan includes shaping the cyber risk mitigation plan, shaping SPEN's partnerships in developing standards and best practices and clearly separating IT and OT projects and budget.

## **INZAC conclusions**

SPEN has indicated that building a cyber capability is a significant challenge, but it has responded very strongly, as evidenced by the depth and scale of the cyber team, built within a short period of time. Targeted engagement in key cyber forums and organisations highlights the commitment to adopt and develop cyber security best practices.

SPEN has established a clear cyber plan, building on the best practice guidelines, so as to deliver a responsible response to cyber threat mitigation. It considers knowledge sharing in this space is integral, as without universal security all networks are more vulnerable. This is to be commended and recognised in terms of cyber physical energy network security.

## 2.2 Business Plan Section: How we will deliver

*SPEN Business Plan p43-75*

### 2.2.1 Our organisation, workforce and our supply chain

*SPEN Business Plan p44-53*

The Buddy Group on Deliverability and Workforce had five meetings with SPEN, plus several informal or catch-up meetings.

The Deliverability and Workforce proposals are challenging because a lot must be delivered during T3. The Buddy Group pushed to ensure that SPEN has taken on board the challenges raised and quick wins suggested by the INZAC and stakeholders, while not being too heroic in its assumptions about how its plan will be delivered.

- **Considerable stakeholder engagement has taken place:** at least 36 separate events/exercises over 2024 (others pre-date this). Ongoing internal colleague and trade union engagement provided a strong understanding of current expectation, areas of focus, or opportunity, and was used as a foundation for T3.
- **SPEN has consulted widely** and the consultee list has expanded over 2024. It included trade bodies, trades unions and skills councils, academia, infrastructure companies, tech companies, and very widely with supply chain and colleagues.
- **SPEN used a range of tools and methodologies:** bilateral meetings; 1-2-1s; workshops; online surveys. Some sessions were structured to allow co-creation, such as sprints with supply chain partners. Stakeholders were presented with details of SPEN's thinking and given the opportunity to reflect and refine.
- **Detailed engagement with supply chain partners:** to understand the supply chain barriers that impede progress and develop actions to address them.
- **Employee expectations:** are changing, insight is critical to ensure employment packages remain attractive, relevant, current, fair and rewarding. Robust resource profiling and skills mapping have been completed.

Supply chain partners were clear about the barriers that SPEN (inadvertently) had created that made tendering more complex. SPEN responded actively to this and initiated legal changes that simplified tendering and contractual processes, which in turn de-risk delivery.

### INZAC conclusions

The consensus from the INZAC and its Buddy Group is that the workforce and delivery plan is well formed, reflects the wishes and desires of stakeholders and is well balanced. It strikes prudent trade-offs between what can be delivered in-house and what will be delivered via the supply chain and ensures a balanced supply chain delivery approach through the hybrid operating model.

The proposals are sensible, not over-stated, and recognise the challenges presented by a desire to keep bills to as low a level as possible. SPEN's access to technical expertise and experience from the wider Iberdrola group can assist delivery.

The proposals recognise the continued work that is needed to retain and recruit talent, but also the levers and insight SPEN has at its disposal. SPEN is very mindful of evolving employee expectations, and embedding diversity and inclusion best practice.

### **2.2.2 Engaging with our stakeholders and supporting communities**

*SPEN Business Plan p54-58*

The Stakeholder Engagement and Community Benefits Buddy Group had nine meetings with SPEN. Summaries for SE and Community Benefits are shown separately below for ease.

#### **STAKEHOLDER ENGAGEMENT**

Key themes for discussion and challenge were:

- **SE evaluation process:** establishing a process for the INZAC to assess SPEN's SE for the T3 Business Plan across all buddy group topic areas (see 'Evaluating stakeholder engagement' box, p6).
- **SPEN's SE strategy:** understanding SPEN's SE strategy and approach for T3 from the central SE team, and reviewing any SE undertaken by the central SE team.

#### **INZAC conclusions**

The SPEN SE team were very responsive to the INZAC's feedback and challenges. The Stakeholder Engagement Annex to the Business Plan provides an excellent summary of SPEN's iterative use of purposeful, relevant engagement to develop, test and refine Business Plan proposals, including triangulation with other relevant factors. The SPEN team rose to the challenge of pinning down the insights gained and communicating how they had been used.

Designing engagement to elicit insights that are relevant to decision-making is already having an impact beyond T3 business planning, with a commitment to refresh the central SE strategy, emphasising Purpose as well as Process. SPEN has also created a new Stakeholder Engagement Action Group made up of Senior Leaders across the business who are responsible for how business priorities translate into their teams' SE approaches, ensuring that the step change in engagement continues as business as usual (BAU) for the organisation. Through this they will collaborate and share insights and best practice.

Stakeholder Engagement is a large and diffuse programme carried out in multiple different ways with stakeholders and customers whose expertise in the subjects being discussed varies widely. It is challenging to ensure that sufficient information is provided to enable all participants to provide meaningful input. In addition, it can be difficult to pin down and use the insights gained. SPEN responded positively to Buddy Group challenge on improving the clarity of contextual information provided in focus groups and surveys.

## COMMUNITY BENEFITS

Key themes for discussion and challenge were:

- **SPEN's experience:** understanding learnings from SPEN's unique experience operating the T1 Green Economy Fund and T2 Net Zero Fund, and how these learnings have been incorporated into T3 Community Benefits proposals.
- **Supporting SPEN:** the INZAC supported SPEN to include Community Benefits proposals in the Business Plan even though guidance has not yet been provided.
- **Stakeholder engagement:** providing feedback and review of SPEN's Community Benefits SE and consultation. The INZAC encouraged an enhanced level of customer and stakeholder insight to continually inform SPEN's developing plans, given the criticality of building wider community support for T3 investment.
- **Review and feedback:** on drafts of the Business Plan chapter and Community Benefits Annex (within the Environmental Action Plan Annex).

SPEN's stakeholder engagement included:

- **Consultation:** 57 stakeholders, comprising mostly community organisations, community members, charity, local authorities, and not-for-profits. Notably, Scottish Government also responded.
- **Four focus groups:** with a range of communities (and so an appropriate balance of voices), including those with funding experience, those 'new to SPEN' and hard-to-reach groups and members of the community, accommodating different needs around timing and accessibility.

SE directly influenced SPEN's Business Plan proposals for Community Benefits. For example:

- **From an EirGrid bilateral:** SPEN integrated Community Forums into its local funding governance to ensure funds truly reflect local priorities and community needs.
- **From consultation and focus groups:** SPEN began exploring: microgrants; requiring projects applying for strategic funding to demonstrate alignment with strategic priorities; renaming social projects to include economic development and cover skills; ensuring that projects are truly community-led by excluding local authority applicants outside a community organisation consortium.
- **Explaining:** to Government, Ofgem and other stakeholders SPEN's learnings from operating the T1 Green Economy Fund and ED2 Net Zero Fund, and incorporating them in developing proposals for delivering Community Benefits within T3. In particular, Capacity Building among applicants enabled applicants who would have struggled to produce applications of sufficient quality to do so.
- **Maximising the range of respondents:** to the Community Benefits consultation, including reaching 'new to SPEN' stakeholders, and including 'hard to reach' residents in the Community Benefits focus groups.
- **Expanding the measurement framework:** from social return on investment (SROI) to include environmental benefits such as carbon reduction or biodiversity net gain.

## INZAC conclusions

The INZAC fully supports the Business Plan proposals for the T3 Net Zero Fund and Community Benefits.

The INZAC supports SPEN's decision to submit the proposals, despite Ofgem guidance not yet being available and thus Community Benefits is likely to be the subject of a reopener. It is the INZAC's belief that SPEN's proposals are soundly based, drawing on real world learning from its operation of two previous funds and substantial stakeholder engagement and research, including outreach to new stakeholders and groups.

This intelligence about what works and what is valued should be useful to Ofgem (and Government) as they consider next steps.

### **2.2.3 Embedding digitalisation and becoming a data-driven organisation**

*SPEN Business Plan p59-65*

Members of the Buddy Group on Data and Digitalisation (D&D) and Innovation met SPEN 13 times. Key themes for discussion and challenge were:

- **New strategy:** clarify what is new in the T3 submission compared to T2.
- **Use of personas:** the INZAC suggested SPEN use personas to identify the primary stakeholders affected by D&D initiatives in T3 and the outcomes for each. In response SPEN developed and published 28 D&D personas in its T3 digitalisations strategy.
- **Whole systems approach:** consider local area energy planning and the implications of aggregated plans on transmission infrastructure.
- **Internal priorities:** consider weighting of internal stakeholder priorities to meet the needs of business units.
- **Data:** flow Mapping and Trusted Frameworks for Big Data Management.
- **Cyber:** establish interfaces with the Innovation and Cyber teams to deliver new BAU.
- **Data best practice:** based on challenges by the INZAC, SPEN has gone above requirements. SPEN has set a target maturity level for each principle in T3 and published it in the Business Plan. It is tracking progress against targets for the end of T3 and will share maturity levels with Ofgem and other key stakeholders every six months.

T2 learning in D&D was extended into T3, and this resulted in strong stakeholder engagement in terms of volume, diversity and methods of engagement. The value capture has positively shaped the resulting T3 submission. A large and diverse network of engagement is evident from across consultants, regulatory working groups, community groups and tech forums, as well as paid advisors. Different types and levels of engagement supported more in-depth engagement where appropriate, without being limited to specialist silos.

### **INZAC conclusions**

The INZAC endorses the proposed plan on D&D. It has been co-created with excellent internal and external engagement, while being cognisant of the abilities of emergent data, digital/computation technologies and services, and the frameworks of secure and trusted data practice.

## 2.2.4 Nurturing and deploying innovation

*SPEN Business Plan p66-70*

Innovation was addressed with the Data and Digitalisation and Innovation Buddy Group, and was considered in a full INZAC meeting. Innovation key themes include:

- **An extension of key T2 themes:** with appropriate support (uplift in expenditure) across the key T3 clusters.
- **Preparation of a coherent innovation methodology:** which provides more accountability in terms of granular BAU value and project lifecycle value.
- **Improved coordination:** across central innovation and the future networks team, which will support improved stakeholder engagement and collaboration.
- **Strategic collaboration commitment:** across all TOs, as required given the need to deliver timely value for customers and to support the Clean Power Mission.
- **Improved external engagement:** with innovators and supply chain partners through forums such as Energy Innovation Centre.

The Buddy Group provided strong challenges relating to stakeholder engagement, based on a lack of diversity and representation in the stakeholder group, which meant the priorities being set could not initially be justified and associated resourcing required more evidence. How innovation would change in response to the cyber, data and digitalisation trends of the sector were not clearly evidenced.

Feedback and team leadership involvement resulted in a significant improvement in stakeholder engagement, and in Buddy Group and innovation working group meetings.

## INZAC conclusions

The final Business Plan is one that the INZAC can endorse with regard to innovation. It has developed and delivered clarity in terms of:

- Capturing BAU value and evaluating innovation.
- Capturing the need to plan for and evaluate lifecycle value.
- Appropriate prioritisation and justification for resources to deliver on the ambitions of the T3 innovation.
- Having a consistent plan to manage the impact of innovation within business processes, to deliver value for customers, stakeholders and the business.

## 2.2.5 Being a sustainable, responsible business

*SPEN Business Plan p71-75*

The INZAC had a well-established positive working relationship with the SPEN Sustainability Team who have been very responsive to critical-friend feedback and suggestions. SPEN's Sustainable Business Strategy has targets and ambitions to 2040 and forms the long-term approach covering T2, where the targets, metrics and detail were developed, and then delivery over the T3 period (and beyond). The number of Environmental Action Plan (EAP) Commitments was reduced for T3, as SPEN felt that too many commitments were made in T2 and they were not focused or measurable enough, a view supported by stakeholders. Commitments achieved in T2 will become BAU in T3.

Key themes for discussion and challenge were:

- **T2 and T3 approach:** SPEN's environmental performance in T2, SPEN's approach for sustainability in T3 and level of ambition given the available technology and cost efficiency.
- **EAP topics covered in detail:** 2035 Net Zero target, offsetting approach, Just Transition, biodiversity and nature, supply chain and SF6 (covered by the Non-Load Buddy Group).
- **Review and feedback** on drafts of the Business Plan chapter, EAP Annex and Commitments.

Sustainability-related stakeholder engagement utilised the established SPEN Sustainability Stakeholder Working Group (SSWG), as well as bilateral meetings with key stakeholders and a public consultation on the EAP (in response to INZAC challenge).

SPEN sought specialist support when needed (e.g. Planet Mark for its 2035 Net Zero target, carbon reduction plans and Science Based Targets Initiative (SBTi) validation).

## INZAC conclusions

The INZAC has encouraged SPEN to be ambitious and go beyond the Ofgem 'baseline expectations' in the RIIO-3 Business Plan Guidance and it is positive to note that SPEN have exceeded these requirements for five of the eight areas. The 2035 Net Zero science-based target goes significantly beyond the Ofgem requirement and the INZAC are strongly supportive of this target as it is essential to help such a critical sector support the achievement of the UK Government's Net Zero target.

The INZAC has encouraged TO collaboration and supports SPEN's leadership of the sustainability-related TO Steering Group and sub-groups. The INZAC welcome the outcomes including common RIIO-T3 Commitments, common data reporting methodologies and metrics, sharing experiences and engaging the common supply chain together.

## 2.3 Business Plan Section: why our plan drives value

*SPEN Business Plan p76-92*

The following examples (set out in more detail above) illustrate how SPEN has responded to stakeholder engagement and the INZAC challenges to drive value, whether by keeping costs down or enabling SPEN to be responsive to uncertainty and the changing energy landscape.

- **Strategic planning:** the Buddy Group on Policy and Regulation challenged SPEN to engage with an evolving landscape of policy stakeholders, including in Westminster and Holyrood. The Strategic Network Plan allows SPEN to nuance its message.
- **Managing connections:** the Buddy Group on Load found that the major concern remains the length of the connection queue. SPEN has been open and transparent about the options and sought feedback and challenge from the INZAC. It has addressed the queue with its TECA Methodology.

- **Deliverability:** the Buddy Group on Deliverability and Workforce found that SPEN's proposals are sensible, not over-stated, and recognise the challenges presented by a desire to keep bills to as low a level as possible.
- **Refreshing SE:** the SE Buddy Group discussions are already having an impact beyond T3 business planning, with a commitment to refresh the central SE strategy.
- **Community Benefits:** the Buddy Group found that capacity building among likely applicants enables more applicants to produce applications of sufficient quality.

## ECONOMICS

The ISG was not required to cover economics in assessing SPEN's Business Plan, but it was included in the INZAC's remit as part of its broader role. The Buddy Group on Economics met SPEN on 10 occasions. They discussed the size of investment in T3 compared to T2 and its impact on the Business Plan and financeability. Discussions included the impact on TO risk profiles, licence obligations, views of rating agencies, debt and equity providers, Ofgem and DESNZ, assumptions in the Business Plan and financeability levers. Other themes included:

- **External factors:** a sense that financial distress in the water sector is influencing sentiment on TOs.
- **Risk profile:** the need for understanding by Ofgem of the change to the sector risk profile and debt/equity costs, existing licence obligations and the fiduciary duties of the SPEN board.
- **Friction between government policy** that is driving the increase in investment, increased debt and equity quantum and associated costs, which runs contrary to the need to minimise costs to the consumer.
- **Financial engagement:** SPEN has engaged with banks, credit rating agencies, SP Treasury (which channels the funds through the Iberdrola corporate structure) and DESNZ. Communications planned by TOs and ENA may not provide feedback before final determination.

In T3 financing is far more complex and challenging than in T2. The SPEN team engaged fully with the INZAC and took onboard feedback throughout. The increase in investment is huge and both teams openly discussed the challenges in meeting Licence obligations and meeting the requirements of the debt and equity markets. The Business Plan seeks to articulate the challenges and the text and descriptions improved through the drafting for a range of readers with different levels of understanding. The INZAC welcomed SPEN's proposed development of a series of short explainer videos on the SPEN website that aim to explain key finance concepts to a non-finance audience.

The Business Plan clearly sets out the requirements and assumptions to make the plan financeable, which are not currently consistent with those proposed by Ofgem. The debate between Ofgem and SPEN will continue into 2025 and will seek to find an outcome satisfactory to both the obligations on SPEN with regard to financeability and licence obligations and that of Ofgem to minimise costs to the consumer.



### 3 INZAC NOTE ON BROADER THEMES AND EVOLVING ISSUES

The INZAC has a continuing role to challenge SPEN, both under its own terms of reference and as ISG. We identified several broader themes that will be the subject of continued challenge to support SPEN in making the step-change that will be required to deliver network expansion and company transformation in T3.

#### Themes for SPEN consideration

- The scale of the T3 network investment and its impact on the communities where it will be sited will not only be substantial, it will also be a source of significant public debate. With NESO providing strategic plans, SPEN's role has changed. SPEN's ability to provide clear, engaging communications and messaging to the public and to stakeholders has never been more important.
- SPEN has an important role in disseminating its unique learnings from operating the T1 Green Economy Fund and T2 Net Zero Fund. In particular, capacity building among likely applicants is easily overlooked but has delivered real value.
- SPEN has to recruit differently to meet its T3 Business Plan skills requirement. New job types and key skills are needed. This includes data and digitalisation (D&D) skills, both to deliver SPEN's D&D ambition and to use new working practices, including on cyber. Though this is built into workforce and delivery plans, SPEN has to maintain recruitment levels and the diversity of people needed. It requires cultural change at SPEN as D&D transforms business processes.
- The previous T2 user group had challenged SPEN on its ambition. The company is now more ambitious, reflective of the company's culture change and leadership approach. The company also now has a different approach to risk, but the magnitude of load-related works is significant and has led to many discussions on its deliverability, the supply chain strategy, and skills. SPEN could use this to provide early evidence to the regulator and DESNZ on the step changes required from the company.
- The INZAC challenged SPEN strongly on Innovation, which originally was based on the T2 approach. SPEN has substantially changed its approach and widened its engagement but should be continuing on that journey through T3.

#### Broader themes for Ofgem consideration

- In workforce and deliverability the decisions made in one Business Plan impact future periods and the INZAC has seen how workforce decisions made in previous years still have an impact on today's business. It could be beneficial for Ofgem to consider how to prioritise establishing strong foundations around workforce that deliver benefits in future years or planning periods.
- There are clear challenges for all network companies, with competition for assets and equipment at levels that have not been seen before. The INZAC supports SPEN's work with companies and Ofgem to address this. It encourages Ofgem to continue to

ensure that Government is fully sighted on the opportunities that it has to develop incentives or mechanisms to create additional manufacturing capability within the UK, such as for transformers, switchgear and cable, to meet expansion plans to 2050.

- Open data policies remain an area where improved clarity of guidance would be beneficial, given the interdependency between innovation, cyber security and data governance.
- A major concern remains the length of the connection queue, which is unsustainable. Proposed changes to the connections process are a major step forward and the INZAC recognises Ofgem's agreement to introduce a 'pause' in applications, which had been strongly supported by the TOs. The new process will allow a form of moderation to be applied to projects but in the interim it is likely that Ofgem's continued support will be required, because during implementation there will be some inefficiencies as projects could be demoted or promoted in the queue.
- Potential regulatory divergence poses a risk, for example the strategy and trajectory for SF6. There are substations in Scotland that have SPEN reporting to Ofgem, whilst an adjacent bay, owned by a generator, reports to SEPA. We would like to see Ofgem seeking to maintain regulatory alignment with SEPA with respect to SF6 losses.
- With respect to SF6 inventories, the INZAC agreed that a wholesale change-over to an alternative - removing switchgear that was not leaking or near its end of life - was neither necessary nor appropriate. We would encourage Ofgem to allow SPEN to determine how best to minimise SF6 losses, rather than set strict reduction targets, which could lead to a wholesale changeover and removal of switchgear that is neither leaking nor near the end of its life.
- SPEN and the INZAC would like Ofgem to move on from requiring Environmental Action Plans to mandate Sustainability Action Plans (SAP). SAPs would be more comprehensive, covering environmental and social aspects, enabling a more holistic approach and strategy to be developed. The subsequent sustainability annual reports would be more comprehensive and would enable greater transparency on activities and performance for stakeholders. This would bring energy companies into line with standard corporate practice for strategies and non-financial reporting (environment-only reporting is an outlier in corporate reporting practice).
- Ofgem emphasised in the Enhanced Engagement framework the importance of "how consumers and stakeholders have been engaged and how any such engagement has impacted ... the development of its RIIO-3 Business Plan". We strongly agree that the value of engagement stems not from simplistic (large) totals of stakeholders consulted, but from whether appropriate stakeholders have been engaged, using appropriate methods and relevant contextual information, and insights gained that are relevant to decisions that the company faces. In addition the INZAC believes that triangulation of data is needed, given the different aspects that the network companies are trying to balance.
- SPEN's Net Zero target is an aspirational stretch target that relies heavily on supply chain advances, particularly to achieve required Scope 3 reductions, so SPEN will require support from Ofgem and broader Government to achieve it.

## APPENDIX – INZAC Members

The INZAC members are:

- **Angela Love** (Chair)
- **Martin Kearns** (Technical Chair), Chief Electrical Engineer, EDF Energy, Nuclear Generation
- **Ashleye Gunn** (Customer Chair) Consumer Policy consultant
- **Professor David Flynn** (Deputy Technical Chair), Professor of Cyber Physical Systems at the University of Glasgow, Chair of the Institution of Engineering and Technology (IET) Scotland, Fellow of the Royal Society of Edinburgh (RSE)
- **Kate Martin Bruintjes** (Deputy Customer Chair), sustainability consultant and advisor
- **Dr Jamie Stewart**, Partner at Everoze Partners and previously Deputy Director for the Centre for Energy Policy at the University of Strathclyde
- **Janet Wood**, Editor, New Power Report
- **Matthew Cole**, Chief Executive, Fuel Bank
- **Rob Cormie**, Edinburgh Advisers
- **Professor Jianzhong Wu**, Professor of Multi-Vector Energy Systems and Head of the School of Engineering at Cardiff University
- **Professor Jovica Milanovic**, Professor of Electrical Power Engineering and Head of the Department of Electrical and Electronic Engineering at the University of Manchester
- **Damien Yeates**, Chief Executive, Skills Development Scotland
- **Colin Lamb**, Route Asset Manager, Electrification and Plant in Scotland, Network Rail
- **Julian Leslie**, Chief Engineer and Head of Networks, NESO