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Dear Networks Price Controls Setting Team,

## **SSEN Distribution response to Ofgem's Statutory Consultation on the RIIO-3 Licence Drafting modifications.**

### **Introduction**

1. SSEN Distribution welcomes the opportunity to respond to Ofgem's Statutory Consultation on the RIIO-3 Licence Drafting modifications.
2. We acknowledge that this consultation and proposed licence does not apply directly to electricity distribution network licensees, and we note that a full separate consultation will be required for any ED3 licence conditions, including those relating to innovation funding. However, there is an obvious read across in this context to ED3, and to the licence conditions and governance documents that will be applied there. These will need to be subject to a separate ED3-specific decision-making process. As such, this response focusses on Ofgem's proposed licence drafting and associated documents that address innovation funding, specifically:
  - a. The Strategic Innovation Fund (SIF);
  - b. RIIO-3 SIF Governance Document; and
  - c. RIIO-3 NIA Governance Document

### **Increases to funding levels of Discovery and Alpha phases**

3. We welcome the increases to the value of the funding levels in the first two phases of the SIF process. This will allow companies to maintain similar levels of work in each phase to that envisaged when values were set at the start of RIIO-2 and which have been eroded in the five years since. We ask that Ofgem has due regard to the time value of money throughout RIIO-3 and considers revising levels of funding for the early phases and perhaps the overall SIF fund size if economic pressures necessitate it. Increased funding for early stages will be particularly required for low technology readiness level (TRL) projects that could revolutionise the Electricity System.

## Energy Network Innovation Taskforce (ENIT)

4. We agree with the introduction of the ENIT for the purposes of driving significant change and addressing critical challenges facing both the industry and consumers. We encourage Ofgem to take steps that will ensure those involved in the taskforce are made aware of the existing innovation work ongoing within the industry, both through innovation stimulus funded projects and through direct business investment. This will help reduce potential duplication and identify potential gaps which can hopefully form a robust foundation upon which to build the future innovation programme. This should help ensure the challenges raised through the ENIT process are appropriately innovative, long term and meeting the stated goals.
5. With regard to NIA projects, we agree with the points about aligning to the Innovation Challenges set by the Taskforce where relevant, but we would not expect that NIA projects are mandated to meet specific challenges, NIA projects are funded by the consumer base of the individual networks and therefore licensees must retain the freedom to undertake NIA projects that meet the needs of their consumers even if these do not address industry-wide issues. Project such as our Smart Hammer project, that we have then received funding to deploy may not neatly fit into the Innovation Challenges but do offer a clear and material benefit to end consumers through improved resilience.

## NESO's role

6. The RII0-3 SIF Governance Document includes detail around the roles that NESO is expected to play going forwards in relation to projects submitted under the SIF. There appears to be a clear conflict of interest and tension between NESO developing their own projects within the SIF process and having a mandated role in the projects being developed by other networks. It is not clear how NESO will be able to determine its own degree of involvement in an external project, potentially influencing the viability of other projects from the start. We consider it important that NESO's role in this regard should be clearly stated in its licence obligations, however we have not yet identified those changes. We ask that Ofgem confirms the timing of the consultation to NESO's licence to reflect these changes, which should reflect the timing of implementation of the changes to the governance document, which comes into force from 1 April 2026.
7. Having a ringfenced amount of funding seems to remove the competitive element of the SIF from NESO, but the SIF Governance document does not give an indication of how much this is and it is therefore not clear if this is an appropriate amount. We would welcome some clarity on this issue and how the size of funding pot was determined, especially as NESO will approve the funds to be collected from energy consumers.
8. There are questions about NESO's ability to resource its involvement in an unspecified number of projects and it must not become a blocker to valid and valuable projects progressing. We would suggest that Ofgem determines what NESO's role should be in advance, potentially in consultation with NESO, and this role should be stated alongside each published challenge so it is clear what the expectations are for licensee engagement with NESO ahead of time rather than following submission as the governance seems to suggest.

## Eligibility Criteria

9. There are now 12 eligibility criteria. This is at risk of becoming unwieldy and resembling a wish list rather than a considered selection of points that licensees should meet. We suggest these could be rationalised so that there are a manageable number to ensure compliance against.
10. The proposed guidance to the scaled assessment approach to projects, particularly compulsory contributions, needs to be explicit as to expectations and criteria. By the time projects are submitted there will already have been significant discussion of budgets and partner contributions. Any material changes to these may lead to projects being unable to go ahead, particularly if companies are engaging with smaller organisations who are new to the energy innovation process. Ofgem should ensure licensees are provided a clearer understanding ahead of submission to ensure that projects can be successfully undertaken.

## Deployment Fund

11. We welcome the introduction of a deployment fund into the innovation process and believe that this could be a significant development in enabling networks to bridge the gap between innovation and BAU implementation.
12. As we understand it this is a £50m pot to be trialled for two years to see how well used it is and what the outcomes of its use are. We ask that regardless of its use by TOs and GDNs, that there is an opportunity for DNOs to demonstrate what could be achieved with such a fund at the start of ED3. The Storm Arwen reopener showed that additional funding can deliver significant rollout of innovation if the criteria allows it, and we strongly believe that DNOs will demonstrate similar eagerness to deploy innovation using the proposed deployment fund.
13. We look forward to continued engagement with Ofgem as part of the development of the ED3 price control. If you would like to discuss any of our response further, please do not hesitate to get in touch with me, or my colleague Frank Clifton, [frank.clifton@sse.com](mailto:frank.clifton@sse.com).

Yours sincerely,

**Clothilde Cantegreil**

Head of Strategy and ED3, SSEN Distribution