

## 5. Economic Growth – common analysis and outputs

### Type of proposal

Stretching commitment / New or enhanced service/**Delivery accountability mechanism**

### Proposal summary:

Investment in electricity networks leads to long-term societal and environmental benefits and economic growth. It creates jobs and has a positive impact on GDP and household income. This closely aligns with Ofgem's consumer, net zero and growth duties.

To properly communicate the quantifiable benefits of investment, particularly on economic growth, stakeholders need to have confidence that any projections of the benefits are robust and independent. This can also help Ofgem communicate effectively how it has complied with its growth duty for ED3.

Our proposal is to require all DNOs to follow the same externally developed methodology to, as a minimum, assess the impact of their ED3 business plan on jobs, GDP, average household income gain and CPI.

For T3, SPEN asked the Centre for Energy Policy at the University of Strathclyde to do this independent analysis for us, but there may be other independent models available. Our proposal would be to lead discussions with other DNOs and Ofgem based on our T3 experience to identify an independent third party and common model to do similar analysis for ED3.

Standardising this analysis will allow Ofgem to scrutinise DNOs and hold them to account for considering economic growth in the long term.

### Which ED3 outcomes does the proposal support? (confirm all that apply)

Investing for the energy transition/ Responsible and sustainable business/ Smarter networks/  
Resilient networks

### Which Consumer Interest Pillars does the proposal support? (confirm all that apply)

Low cost transition/ Fair prices/ Quality and standards/ Resilience

## Summary of key reason(s)/driver(s) for the proposal

### Economic Growth Duty:

Ofgem's growth duty requires them to 'have regard to the desirability of promoting economic growth' when exercising regulatory functions.

In RIIO3, Ofgem required network companies in their business plans to explain how their plan '*will contribute to sustainable economic growth for the wider UK economy in the medium to long term, both within the energy sector and more broadly*'. Following this, Transmission Operators had to forecast the number of jobs created from their overall plan. We expect Ofgem to impose a similar requirement for ED3, but without an established common and independent methodology, it not be possible to compare DNOs or calculate total DNO impact.

### Investment and bill impacts

Investment in ED3 will be significantly higher than ED2, and there will be corresponding upward pressure on customer bills. Bill increases in the short term can be challenging for people to accept, even if this will lead to long term bill savings., Especially with many energy customers in debt to their energy supplier.

Using a common, robust economy wide model to calculate benefits of ED3 DNO spend in the form of GDP, household income and jobs, will assist both Ofgem and DNOs to communicate the wider benefits objectively

## Summary of supporting evidence

As part of our T3 Business Plan, we met our Business Plan Guidance requirements relating to the Growth Duty by asking the Centre for Energy Policy (CEP), at the University of Strathclyde, to model our investment using their multi-sector economy-wide scenario simulation framework to do this analysis. This is a computable general equilibrium (CGE) model of the UK economy (UKENVI), which has been extensively peer reviewed, including for applications focusing on impacts of investment in electricity networks.<sup>1</sup>

They calculated that our T3 investment in our network would support £2bn of net additional GDP in the long-term per annum, and 11,500 additional jobs, and would have a positive impact on customer bills. This analysis has been peer reviewed.

We are aware that the Electricity Networks Growth Plan is conducting a comprehensive economic and supply chain analysis to quantify the economic opportunity stemming from network investment. This will be a valuable piece of work, but we do not believe this will be able to isolate the impact of DNO spend only over the 2028-2033 period (it covers Transmission too and spans a longer time frame).

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<sup>1</sup> [How will SP Energy Network's RIIO-T3 Investment Plans Impact the Wider UK Economy? - University of Strathclyde](#)

## Summary of potential benefits

A common, independent approach to calculating economic benefits of DNO investment spend within the ED3 period would provide consistency and credibility to the outputs generated. This is essential to avoid any concerns of potential bias of the analysis that might undermine both the analysis and the economic growth opportunity narrative.

Robust and independent analysis would:

- Provide the evidence required to help Ofgem fulfil its Growth Duty in relation to the ED3 investment spend and allow for this to be reported to government.
- Provide DNOs and Ofgem with the ability to put the short-term bill impacts into a longer-term billing savings context. Objectively showing that investment over that time period is genuinely in the long-term consumer interest.
- Provide further support to the UK's Low Carbon Transition by providing a direct link between the decarbonisation facilitated by distributional network investment, and predicted economic growth benefits, and positive impacts on GDP, jobs and household income.

**Where the proposal relates to a new or enhanced service or to stretching commitments, explain why the proposal is not already business as usual or incentivised either through the existing RIIO-ED2 framework or under ED3 proposals that we are consulting on**

N/A – proposal does not relate to a new or enhanced service or a stretching commitment.

**Where the proposal relates to a new or enhanced service, explain why DNOs are best placed to undertake the activity described under the proposal**

N/A – proposal does not relate to a new or enhanced service or a stretching commitment: