

John Kennedy
Ofgem
10 South Colonnade
Canary Wharf
London
EH14 4PU

27 March 2026

Dear John,

Changes to RIIO-ED2 Load Related Expenditure volume driver

1. We welcome the opportunity to respond to Ofgem's consultation on Changes to the RIIO-ED2 Load Related Expenditure volume driver. This response is on behalf of Scottish Hydro Electric Power Distribution (SHEPD) and Southern Electric Power Distribution (SEPD), collectively known as SSEN Distribution.
2. We understand Ofgem's general reasoning on its proposals, however we are concerned with the evidence, including data and calculations, Ofgem has used to inform its proposed decision. There are a number of areas within the consultation in which Ofgem has not provided sufficient justification or evidence for its decision. This includes, the updates proposed to the ex-ante allowances and how this was determined, where SSEN Distribution ex-ante has reduced. Ofgem has provided some further details via the LRE VD working group, which has allowed us to make some observations.
3. We have captured our views to the consultation questions within appendix 1. Whilst we agree with some of the changes, the fundamentals of the adjustments to allowances suggested do not appear to have robust evidence to support them, based on the information provided by Ofgem in this consultation and subsequently. There are also some high level concerns with the scope and impact of the consultation which we outline below.
4. **Ex-ante allowance for LVSVD has been recalculated and reduced for SSEN Distribution**
The reduction to ex ante allowance hinders our ability to support delivery of net-zero by slowing down the electrification of heat and transport. Ofgem have stated within its consultation that the changes proposed are to ensure licensees are not a blocker to net zero. The proposals do not accurately reflect this statement.
5. **Ofgem's proposal only looks at years 4 and 5.**
As part of its consultation Ofgem has made the statement that the proposal will be forward looking only and only update the unit rates for years 4 and 5 of RIIO-ED2. We note Ofgem's reasoning, and that the guidance states that it will be forward looking only, however we would highlight the following:

- The reason given for revising the rates was that it is due to an error in the methodology Ofgem implemented. DNOs should not be unfairly penalised for erroneous methodology. On that basis, the revised rates should apply to all years of RIIO-ED2. Corrections should be made and values updated accordingly.
- Whilst the point above still stands, should Ofgem deem that error is not the underlying cause of the revaluation, further consideration should still be given to the timescale being assessed. RRP for year 3 are still to be submitted, and any costs and update to tariffs would be reflected alongside year 4 and 5. Therefore, year 3 costs should be deemed as forward looking.
- Ofgem noted in the guidance it would come to a decision in March 2026. As the consultation closes at the end of March, this deadline will be missed. Based on timings of the original proposed consultation, it should be assumed that year 3 is in scope.

6. Regional Adjustments

Regional adjustments have not been included in the consultation. Currently, some DNOs are at a disadvantage as they have not received the same amount of uplift on Unit Costs due to the analysis not normalising costs before any calculations have begun. When Unit Costs were first set, SEPD received a regional adjustment and now through this consultation, this has been removed.

7. We are happy to discuss any of the points we have raised. If you have any questions, please contact me or Louise Muirhead (louise.muirhead@sse.com).

Yours sincerely

Rachael Robertson
Head of Regulatory Finance

Appendix 1

Low Voltage Services volume driver

Q1. Do you agree with our choice of option 3 for the calculation of the LVSVD unit rates?

As part of our RFI response, we provided alternative unit rates which fell under option 4, these would be our preferred unit rates. While option 3 is an increase in the current rates, it is still not sufficient to cover our incurred and forecast costs. We will continue to deliver our forecast using our proposed option 4 rates, which we deem to be an efficient rate. If Ofgem opt for option 3, then this means we would continue to be underfunded for this area of work which goes against the purpose of bringing in the LRE Volume Driver initially. The RIIO-ED2 Final Determinations Core Methodology states that benefits of this Volume Driver is to 'Ensure networks have sufficient funding to enable net zero and protect customers from paying higher costs than necessary'. This choice of LVSVD unit rates does not provide sufficient funding.

In the report and consultation, CEPA and Ofgem stated:

- *"Not all DNOs provided forecast information preventing the derivation of a robust, comprehensive benchmark from existing data."* – CEPA
- *"We do not present forecast-based unit costs (Option 4) as we do not support this option. Not all DNOs provided forecast data in response to the RFI, meaning a robust benchmark cannot be derived."* – Ofgem

Subsequent engagement with all DNOs at an LRE Volume Driver WG, which Ofgem also attended, it was highlighted that all DNOs did provide a response to the request. Therefore, it is not appropriate to use this as reason for discounting option 4. Ofgem has not provided any evidence-based reasoning on this decision, which we believe needs to be shared ensuring a fully open and transparent consultation.

Q2. Do you agree with our proposed LVSVD unit rates?

No, we do not agree. As mentioned in question 1, our view is that the unit rates proposed in option 4 are most reflective and appropriate. The proposed rates, LV UG in particular, are significantly lower than would support delivery of required volumes.

In appendix 2, we have included an analysis of the percentage difference between current unit costs and the proposed option 3 unit costs. 5 licencees (LPN, SPN, EPN, SPMW, SEPD) do not see the same uplift in unit rates as that of other licencees. The reason for this looks to be that before any work was carried out on deriving the new unit costs, the regional adjustments were not considered. Therefore, if Ofgem decide to proceed with option 3, we believe a further adjustment should be made to those DNOs not seeing the same uplift to ensure regional adjustments are appropriately reflected.

Q3. Do you agree with our proposed recalculated LVSVD ex ante allowance?

No, we do not agree. The proposal would lead to a reduction in ex ante allowances of £2.15m, most of which impacts SHEPD. We do not believe that our ex ante allowance should be reduced based on our delivery in years 1 & 2. We still have 3 years left of the price control to deliver our forecast volumes, with year 3 showing an increase

in delivery. As stated in our RFI, this has been a new area of work and our delivery streams are still getting up to speed, meaning we hope to see an increase in volumes in the remaining years of ED2. This ex ante reduction further disincentivises SSEN Distribution from delivering this work and would act as a blocker to net zero.

Ofgem has noted that *“These changes are required to ensure that licensees are not a blocker to net zero by having sufficient funding to invest in network capacity and that low carbon technologies do not face installation or operational delays.”*

A reduction in allowances, as proposed for SSEN Distribution, will not support us in delivering net zero targets.

In addition, as noted in question 2, the current proposal has adjusted our ex ante allowance lower than expected as regional adjustments have not been considered. It also appears in its calculation, that CEPA has used the incorrect original agreed ex ante allowances for NPg – which was adjusted following a CMA appeal. The calculations used for the proposed ex ante need to be amended to include regional adjustments and the updated original value for NPg.

Q4. Do you agree with proposed change to the LVSVD metric?

We agree with Ofgem’s proposed change to the LVSVD metric.

Secondary Reinforcement volume driver

Q1. Do you agree with our proposed changes to the SRVD metrics?

We do not have any concerns with this proposal.

Q2. Do you agree with our proposal to change the SRVD Cap for SP ENW?

There is not enough detail provided in the consultation to fully understand the proposed changes to the SRVD cap for SP ENW, however, this does not directly affect SSEN Distribution, and we do not have any immediate concerns.

Appendix 2 – Current unit rates vs option 3 unit rates

	LVSVD Current Unit Rates		LVSVD Option 3 Unit Rates				Corrected LVSVD Option 3 Unit Rates	
	LV Service (OHL)	LV Service (UG)	LV Service (OHL)	LV Service (UG)	LV Service (OHL)	LV Service (UG)	LV Service (OHL)	LV Service (UG)
	£k	£k	£k	£k	% Increase		£k	£k
ENWL	0.346	1.605	1.44	2.65	316%	65%	1.44	2.65
NPGN	0.346	1.605	1.44	2.65	316%	65%	1.44	2.65
NPGY	0.346	1.605	1.44	2.65	316%	65%	1.44	2.65
WMID	0.346	1.605	1.44	2.65	316%	65%	1.44	2.65
EMID	0.346	1.605	1.44	2.65	316%	65%	1.44	2.65
SWALES	0.346	1.605	1.44	2.65	316%	65%	1.44	2.65
SWEST	0.346	1.605	1.44	2.65	316%	65%	1.44	2.65
LPN	0.449	2.084	1.44	2.65	220%	27%	1.87	3.44
SPN	0.372	1.726	1.44	2.65	287%	54%	1.55	2.85
EPN	0.361	1.675	1.44	2.65	299%	58%	1.50	2.76
SPD	0.346	1.605	1.44	2.65	316%	65%	1.44	2.65
SPMW	0.364	1.690	1.44	2.65	295%	57%	1.52	2.79
SSEH	0.346	1.605	1.44	2.65	316%	65%	1.44	2.65
SSS	0.370	1.715	1.44	2.65	290%	55%	1.54	2.83
Overall Increase from base unit cost					316%	65%		