

Response to RIIO-ED2 Methodology Consultation July 2020

This response has been prepared by the SSEN Customer Engagement Group

While the focus of our role as a CEG is to provide independent challenge to the company and assurance to Ofgem on the company business plan, we are aware that the sector methodology may impact the extent to which SSEN's plan can ultimately deliver what customers and stakeholders need and want. We have therefore decided to respond briefly to the SSM consultation to highlight a few areas that, based on our discussions as a CEG to date, we see as important for Ofgem to pay close attention to as it finalises its methodology.

We are aware of the concerns that have been raised around Draft Determinations and the extent to which consumer and stakeholder views, including the views of CEGs and user groups, do not appear to have influenced Ofgem's proposals. We, of course, continue to see the enhanced engagement process as hugely valuable and look for continued assurance from Ofgem that it will take account of these views as part of the RIIO2 process.

The other issues we would like to highlight are as follows:

We have explored with SSEN the approach that they intend to take to **local area energy plans**, supported by Regen and the industry wide thinking on DFES. In the consultation Ofgem raises questions about how far it is appropriate to rely on local forecasts. In our view it is essential, if the plans are to reflect the needs and wants of SSEN's customers and stakeholders, that the allowances that are set take account of local ambitions around de-carbonisation, provided they are appropriately justified. The Scottish government has a statutory net zero target, based on CCC analysis, that is ahead of the rest of the UK. The GLA has well worked through ambitions and project LEO in Oxford is helping build stakeholder capability and evidence to support greater ambition in that region. Accommodating the ambitions of the different nations and regions is important to keep stakeholders bought into the enhanced engagement process. Supporting pathfinder cities and areas that are looking to move faster towards net zero will ultimately benefit all customers through both the carbon savings they deliver and the learning that they provide.

On **vulnerability** we welcome the new incentive that is proposed for companies to develop a vulnerability strategy and deliver against it. We welcome the idea of minimum standards and understand Ofgem's desire to refine these to pick up on ideas put forward in the Business Plans. However we believe it remains important that the consumer voice directly shapes the standards that are proposed and that there is room left for different regional priorities to be reflected in different approaches across the companies on some aspects. If not, it is unclear what the point is of enhanced engagement. As such we would be concerned if minimum standards were increased part way through the process without clear evidence of consumer support and willingness to pay.

A central theme for RIIO2 has been the **handling of uncertainty** and Ofgem's move to a more adaptive approach as it looks to meet **net zero**. We are pleased that for ED2 more reliance is likely to be placed on automatic adjustments through volume drivers and potentially PCDs with triggers, rather than just re-openers where there is a challenge in terms of ensuring timely decisions. We have heard from SSEN about their thinking on different models for tackling uncertainty and dealing with **strategic investment**, including the work that they have commissioned from Goran Strbac and from Frontier Economics. This attempt to work out how best to take account of uncertainty in assessing future investments and the option value of flexibility is one that we welcome and we hope that Ofgem's CBA methodology will draw on and accommodate that thinking.

We have seen in the Draft Determinations significant pushback from Ofgem on proposed investments around **asset resilience**. We have discussed with SSEN how they can get **assurance** around the investments they identify and Ofgem's approach to low and high confidence costs. We encourage Ofgem to give as much guidance to the companies as they can around the level of evidence they are looking for and the sort of assurance that would give them confidence in the costs put forward.

Finally, we have been hearing from SSEN about their ambitions on de-carbonisation and the wider **environmental agenda**. While we believe that they are genuinely committed to this area we are concerned that Ofgem's proposed methodology relies very largely on reputational incentives to ensure that any commitments are delivered. In a very tight price control, we can see there could be temptations for the company to cut back on outputs that they are not required to deliver. Given the importance that customers and stakeholders attach to tackling climate change we would encourage Ofgem to look at the potential for some sort of **EAP based financial incentive**, analogous to that proposed for vulnerability, for example. This would ensure the companies deliver on their commitments and also encourage them to look for additional opportunities through the price control period. Clearly SSEN could put forward a bespoke ODI to deal with this but it seems to us that in this area there would be benefit in a cross-sectoral approach.

We hope that these comments are helpful and would be happy to discuss them further if that would be of value. In the meantime we are of course continuing to provide challenge to SSEN as it develops its Business Plan and look forward to sharing our views with you in due course.

Tracey Matthews

Chair, SSEN CEG