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Dear James

Ofgem's Forward Work Programme 2018-19

SSE welcomes the opportunity to provide our views on Ofgem's Forward Work Programme 2018-19.

We recognise the importance of communicating clearly to customers and we welcome Ofgem's new streamlined report. The programme is clear, digestible and links clearly to consumer outcomes. We anticipate additional detail will be added over the year, or through direct engagement, but we acknowledge there is always a balance in priorities and do not expect this year will differ from past years.

We acknowledge the ongoing work in terms of ensuring customers are treated fairly, through work in areas such as the Customer Vulnerability Strategy, safeguarding tariffs and wider customer engagement. We look forward to working with Ofgem and other stakeholders to achieve the best outcomes for all customers.

We note the planned organisational changes within Ofgem. The Draft programme establishes Ofgem's priorities for delivering the greatest difference to consumers. We recognise that joint work is already underway in many areas and we remain committed to these. We believe it is important to give certainty to stakeholders and to allow parties to plan efficiently, understand and manage risks. We expect Ofgem to work with its developed systems and processes to maximise the policy outcomes, within the existing framework.

We ask Ofgem to consider these conflicting priorities and encourage Ofgem to continue to work towards delivering high quality outcomes. We continue to advocate pragmatism in terms of what is realistic to be achieved in the short to medium term. We will help to contribute to these discussions, and will support where there is an immediate and demonstrable benefit in changing in the short term.

A more detailed response to specific areas included in the consultation is included in Annexes A and B.



Finally, we urge Ofgem to carefully consider the timeline for making major decisions. It is important that the volume of work that needs to be done in 2018-19 is managed effectively, with prioritisation given to the urgent issues.

We would be happy to meet Ofgem to discuss the views outlined in this response in more detail.

Kind regards,

A handwritten signature in black ink, appearing to read "Fraser Nicolson". The signature is stylized and cursive, with a prominent flourish at the end.

Fraser Nicolson
Regulation, SSE

Annex A:

We wish to highlight the following key areas that we consider to have particular importance in the coming year:

RIIO-2

With regards to current regulatory mechanisms, we recognise the importance of having clearly defined mid-term reviews and uncertainty mechanisms. We note the work currently underway in these areas. We also look forward to the publication of the **RIIO-2 price control framework** and future discussions on the next regulatory frameworks. We maintain our position that we are not comfortable with Ofgem's early assertions that "returns will be lower" and the "price control tougher" – this may ultimately be true, but should be a conclusion, not a starting point. We look forward to an open and constructive dialogue with all stakeholders over the coming months that will inform Ofgem's Framework Decision.

Cap and Floor regime

The cap and floor interconnector regime has been the regulated route for interconnector development in Great Britain since 2014. While the fundamental regime design for interconnectors is unlikely to change going forward, we encourage Ofgem to carefully consider the interactions of the regime with transmission charges. This area should be looked into in more detail and linked with Ofgem's wider charging work. We also support Ofgem's approach where a decision on any further application rounds is subject to an in-depth consultation and Impact Assessment.

Smart Systems & Flexibility Plan

We welcome the progress Ofgem has made to date on networks charging, both in terms of establishing the Charging Futures Forum and initiating the Targeted Charging Review. We agree this is a central piece of work for the coming year and that this needs to include all aspects of charging to mitigate the likelihood of unintended consequences going forward. However, this does mean discipline is needed to ensure the scope of the work remains manageable. This work has close links with Ofgem's work on flexibility and it is right that this and the work on network charging are joined up. More generally, we welcome Ofgem's continued role in the ENA's Open Networks Project, which will be key to delivering Ofgem and BEIS' Smart System and Flexibility Plan.

We recognise this work is wide ranging and will take time. Ofgem should recognise that regional networks will face different challenges at different times and will have different priorities and potentially solutions. Networks need a stable regulatory framework that has continued flexibility that both supports managing uncertainty and long term planning, both in the way we respond to trials and modification proposals to ensure we can respond to customer and network needs in an efficient and timely manner. This will ensure that networks can balance the requirement to react to short term changes and to plan over long timescales.

Consideration will also need to be given to whether in the longer term stakeholders are keen to retain a consistent framework / solution across all areas, or whether Ofgem is willing to accept divergence / different solutions across different networks. This is an important area, affecting Networks ability to respond to customers. We believe the current framework allows for differences, with RIIO built to recognise and encourage innovation.

Secure and Promote licence condition

We welcome Ofgem's initial short-term work on the Secure & Promote (S&P) review. While we note that Ofgem intends to do further work the S&P licence condition review in the medium- to longer-term, we encourage Ofgem to set out a clear timeline for any subsequent work on S&P. This will provide comfort to market participants that any distortionary impacts, such as a distorted pattern of trade, resulting from this regulatory intervention, are taken seriously by Ofgem and will be addressed in due course as a matter of priority.

Security

We are fully engaged in managing cyber security across our businesses. We recognise the profile, prevalence and sophistication of malicious cyber attacks is increasing and are aware of the Government's proposal to designate Ofgem as the joint Competent Authority for the Network and Information Systems Directive (NIS). We are engaged with the Energy Cyber Security team at BEIS on the NIS Directive through the E3CC, and also on a bilateral basis. We would welcome direct engagement with Ofgem as it develop its thinking on its role and the regulatory framework used to implement the arrangements, including associated funding arrangements.

Innovation

At a high level, we support the removal of barriers to **innovation**. We see this as a positive step and believe that this encourages better solutions to be investigated and ultimately delivered. The Network Innovation Allowance (NIA) and Network Innovation Competition (NIC) have created certainty of the innovation need and the funding availability that has provided our supply chain with confidence in the intention of network companies to use innovative solutions.

SSE shares Ofgem's ambition to improve the market for consumers through increased competition and engagement and as such believes that innovation will help aid the market. However, we must ensure the market maintains adequate consumer protection, is transparent and fully auditable. We must also ensure our ambitions are not progressed to the detriment of previously justified major industry change programmes, which will be ongoing for some time to come.

Brexit preparedness

SSE welcomes Ofgem's commitment to advise and provide support to the UK Government as the country exits the EU. The energy industry will welcome clarity and stability, where possible, as the **Brexit** process develops over the next 12 months. This period will potentially



be crucial in setting out the principles that will guide the future UK-EU energy relationship. SSE believes that the UK's participation in the EU's Internal Energy Market (IEM) has generally been beneficial to the development of the GB energy system and the UK has been instrumental in helping to shape the IEM's direction. SSE supports a long-term collaborative, mutually beneficial UK-EU energy relationship. Ofgem, continuing its role on ACER and CEER, to shape policies in the interests of British customers, will be an important part of our future relationship with the EU.

Annex B:

We continue to challenge in the following areas, noting that these remain of interest to us going forward.

Competition

The further extension of competition in transmission has the potential to benefit energy customers, but only where it is implemented within a considered and evidence-based framework. We appreciate that the Government's decision to not proceed with legislation was outside of Ofgem's control, but we would encourage Ofgem to continue to work with Government to secure the necessary Parliamentary time for legislation before moving forward. In the absence of primary legislation there is a lack of scrutiny and clarity in the process by which Ofgem can determine whether the extension of competition serves to further the customer interest. The lack of a clear process creates conditions for ongoing challenge and delay as parties rationally seek clarity through available appeals mechanisms. The costs of delays are ultimately felt by customers.

We are currently considering our position in response to the recent Ofgem publications on Onshore Competition including the CEPA methodology and will be responding with our detailed comments next month.

Gas Charging Review

We would like to emphasise the importance of a careful consideration and proportionate approach to the **TAR NC implementation** in the GB market. In our view, an unnecessarily tight implementation timeline might result in a solution that would lead to important issues not being fully explored and unintended consequences arising as a result. When considering an optimal approach to gas charging in the GB market, Ofgem should give due consideration to the competition and security of supply objectives which, if not achieved, would lead to increased costs to consumers.

OFTO regime

In our view **the Offshore Transmission Owner (OFTO)** provides a more dynamic approach to the development of transmission networks and has delivered its benefits to consumers and the market. However, we believe that a holistic review of the OFTO regime is required. While the market has significantly changed, the framework has not been reviewed since the first set of transitional tenders to appoint new offshore grid companies has been introduced in 2009. We encourage Ofgem to conduct an in-depth review and consultation on all aspects of the OFTO regime to reflect on the lessons learned from the five Tender Rounds and assess the wider developments in the offshore industry.

Reducing Regulatory Burdens

SSE recognises the importance of targeted RFI requests. However, SSE continues to encourage Ofgem to improve the forward planning of RFIs. We request that Ofgem



considers these requests, ensures they are made only when necessary and avoids duplication wherever possible.

Significant flaws in the prepayment meter (PPM) cap methodology need to be addressed

SSE has already responded to the Ofgem consultation on extending the safeguard tariff. We have significant concerns with the outcomes in practice of the current PPM methodology. We have already highlighted to Ofgem both the gravity of the errors in the methodology, as well as the need for urgency in resolving them.