

## SSEN Distribution Response to RIIO ED2 - Draft Determination

### Overview Document, 9. Approach to the Totex and Business Plan Incentive Mechanisms

<b>Question ID</b>	Q7.						
<b>Question</b>	Do you agree with our view that all the DNOs have passed Stage 1 of the BPI?						
<b>Response</b>							
<p>We agree that all DNOs have passed stage 1 of the Business Plan Incentive (BPI). All companies worked closely with their stakeholders to design their business plans and these were all subject to additional challenge through the enhanced engagement process.</p> <p>With regards to our own business plan, we clearly outlined in Annex S5<sup>1</sup> of our final submission how our business plan meets minimum requirements. Throughout the business plan development process, our business plan was thoroughly challenged by our independent CEG. In its final report, published in January 2022<sup>2</sup>, our independent CEG states that: "It is the view of the CEG that the SSEN Distribution RIIO-ED2 Business Plan meets the minimum requirements."</p> <p>We note that Ofgem's view in paragraph 9.39 that we have not met a small number of minimum requirements, but that this failure is not material. We disagree with Ofgem's position for the reasons outlined below:</p>							
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left; padding: 5px;"><b>Ofgem feedback</b></th><th style="text-align: left; padding: 5px;"><b>SSEN view</b></th></tr> </thead> <tbody> <tr> <td style="padding: 10px;">With regards to pay structure and reward, SSEN's Business Plan did not make links to price control outcomes or make explicit links to revenue adjustments</td><td style="padding: 10px;">Chapter 19, p. 177 of our business plan sets out our approach to pay and performance. Therefore, we do not think that we have failed to meet this minimum requirement.</td></tr> <tr> <td style="padding: 10px;">With regards to outputs, SSEN's Business Plan was inconsistent in its categorisation and included a number of outputs that were not categorised according to the prescribed options, without clear explanation for the approach it took.</td><td style="padding: 10px;">We have categorised all outputs in line with Ofgem's own categorisation. As noted by Ofgem, we have introduced our own additional category referred to as "SSEN aim". This was to capture additional activities or aims that were of high priority or value to our stakeholders, that would have otherwise not been explicitly pulled using Ofgem's own categorization. Given the importance of these for our stakeholders we introduced an "SSEN aim" category to ensure our commitment is clear and visible. This does not constitute a failure to meet minimum requirements.</td></tr> </tbody> </table>		<b>Ofgem feedback</b>	<b>SSEN view</b>	With regards to pay structure and reward, SSEN's Business Plan did not make links to price control outcomes or make explicit links to revenue adjustments	Chapter 19, p. 177 of our business plan sets out our approach to pay and performance. Therefore, we do not think that we have failed to meet this minimum requirement.	With regards to outputs, SSEN's Business Plan was inconsistent in its categorisation and included a number of outputs that were not categorised according to the prescribed options, without clear explanation for the approach it took.	We have categorised all outputs in line with Ofgem's own categorisation. As noted by Ofgem, we have introduced our own additional category referred to as "SSEN aim". This was to capture additional activities or aims that were of high priority or value to our stakeholders, that would have otherwise not been explicitly pulled using Ofgem's own categorization. Given the importance of these for our stakeholders we introduced an "SSEN aim" category to ensure our commitment is clear and visible. This does not constitute a failure to meet minimum requirements.
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<b>Question ID</b>	Q8.
<b>Question</b>	Do you agree with our overall approach regarding treatment of CVP proposals?
<b>Response</b>	
<p>We are pleased that two of our consumer value propositions (CVPs) have been accepted and rewarded. We also note that a third CVP has been accepted but not rewarded. We welcome this decision and Ofgem's proposal to fund through our baseline. Further discussion is required to understand how funding will be treated in the cost assessment process and the impact on the services we will be able to provide. The costs associated with this CVP should be separately technically assessed based on the CVP submission rather than being included in the modelled costs if this is to be classed by Ofgem as a baseline activity.</p> <p>We believe all our CVP proposals have potential to deliver significant to consumers, and these were supported by our stakeholders. We would have liked to have seen them all accepted, and their relevance has increased based on the challenges we all face today. We provide further comments on our own CVPs in response to SSEN Q3, SSEN Q4, SSEN Q5 and SSEN Q6.</p> <p>We note that the exact calibration and treatment of CVPs needs requires further consideration. We set out our views in the response below.</p> <p><i>Reporting Requirements</i></p> <p>We support the proposed reporting requirements. In our Business Plan we outlined how we intended to report on an annual basis, providing our customers and stakeholders with transparent reporting on each of our two CVPs.</p> <p>In our S3 CVP annex of our final business plan we outlined our proposed reporting format. This remains relevant, particularly in response to Ofgem's performance metric request and includes:</p> <ul style="list-style-type: none"> <li>• Delivery Status – relative to agreed baselines</li> <li>• Explanation on variances observed – whether ahead, on, or behind target</li> <li>• Actions planned in next 12 months – scope to detail future work in each area.</li> <li>• Feedback received from stakeholders, including surveys</li> <li>• Modifications proposed to approach, if applicable</li> </ul> <p>We note Ofgem's proposal regarding modifying the RIGs to incorporate within the RRP. We have no immediate concerns with this proposal.</p> <p><i>Performance Metrics</i></p> <p>We have explored the different ways in which our CVPs could be measured, as part of our response to this question. We note the precedent that has already been established in GD2/T2 already for RIIO-2.</p> <p>Ofgem needs to carefully consider the mechanisms for measurement of the CVPs. Further discussions are required on this issue. The simplest and easiest to understand metric to measure is performance against the overall output.</p>	

An alternative would be to monitor and measure delivery against the value delivered, in line with proposals for the vulnerability incentive. There are pros and cons for each position, and we welcome discussion on the two approaches.

In the interests of transparency, the same mechanism should be applied across all CVPs. The principle of simplicity should be adhered to here, as designing something complex will be hard to explain to our stakeholders.

#### *Clawback for non-delivery*

We accept the principle that where CVP outputs are not delivered there should be a claw-back in place. We have already committed to returning a proportion of our funding and reward should we not deliver our full CVPs.

However, further discussions are required on how this operates in practice, and Ofgem must consider whether under specific circumstances exact deliverables under CVPs should be able to evolve, provided similar levels of consumer value are still being delivered, and stakeholder support remains strong. Any claw-back mechanism must be proportionate and ensure companies are still appropriately funded and rewarded for delivering additional consumer value even in the event of partial delivery.

#### *Proposed approach for treatment of CVP proposals that do not receive a reward*

Only CVPs accepted and rewarded should be subject to the reporting and performance metrics set out in the Draft Determination. This would be a proportionate approach.

As noted above, we consider that the costs associated with this CVP should be separately technically assessed based on the CVP submission rather than being included in the modelled costs if this is to be classed by Ofgem as a baseline activity.

#### *Additional commentary on SSEN CVPs*

Our CVPs pushed the bar further in delivering additional value for consumers, earlier than if there was no business plan incentive (BPI) available. We will continue to work with partners to progress the delivery aspects of our proposals, noting that Ofgem will not reach a decision until Final Determination. We have met the criteria stated with the business plan guidance (BPG).

We support the overall ambition to include CVPs as part of the Business Plan Incentive, but we challenge Ofgem's assertion that some of our CVPs in fact represent business as usual activities. We have two specific concerns:

1. Personal Resilience Plan (PRPs) - We continue to consider that our PRPs are not a baseline activity in RIIO-ED2. We have engaged with stakeholders and Ofgem throughout this process and have not seen robust evidence that PRPs are being delivered as business as usual. We expand further on this distinction in our SSEN Q5 response, and for clarity our view is that PRPs should be funded and rewarded through our CVP.

2. Embedded Whole Systems Support Services for Local Authorities – In Annex S3 of our Business Plan, we have drawn the clear distinction between our baseline offering and how our CVP goes above and beyond to deliver value for consumers. We do not agree that this activity is a baseline activity, in particular in the context of the need for additional support required to local authorities and communities to deliver net zero ambitions across the country. We recognise the need to ensure that similar levels of service are provided to local stakeholders across GB, however note that no clear baseline expectation was set by Ofgem in this regard. We expand further on our views in our SSEN Q3 response. We do not accept that these represent business as usual activities.

As the only true opportunity to reward ambition is through the BPI, we question more generally the approach by Ofgem to accept CVPs in principle, but not to reward DNOs for the additional ambition that has been proposed. This risks undermining BPI and the genuine efforts of all DNOs to deliver additional value, in excess of the requirements set out by Ofgem for RIIO-ED2. This may put the overall viability of CVPs as a component of the BPI at risk in RIIO-ED3. Where value has been delivered and it can be demonstrated to be above and beyond BAU and new, this should be rewarded.

*Additional commentary on other DNOs' CVPs*

We do not provide significant commentary on each of the other DNOs' CVP proposals. However, we note that Ofgem's proposals to fund (but not reward) two CVPs is not in line with its proposed treatment of a number of activities proposed in Ofgem's baseline.

In that context, we welcome Ofgem's proposals to fund both ENWL's Smart Street CVP and NPG's 'One-stop app for vulnerable customers' and 'Open Insights – a self-service analytics toolkit' CVPs. We note significant similarities with proposals in our plan, in particular:

- We are proposing to install LV On Load tap Changers (OLTCs) at an incremental additional cost of £6.5m when replacing our 'end-of-life' 6.6/11kV Transformers (GM). The LV OLTCs technology together with the associated LV monitoring and switching devices is the same technology proposed by ENWL within the Smart Street CVP. As with the Smart Street CVP, this proposal is intended to support our vulnerable and fuel poor network customers through the cost-of-living crisis by deploying technology which is designed specifically to reduce the energy consumed by our customers home appliances. However, Ofgem has not currently accepted the incremental funding we have requested to deploy this technology despite our financial ask (both total cost and unit cost) being significantly lower than that requested by ENWL within its Smart Street CVP.
- Tailored Insights: We are proposing to introduce Tailored Insights, which is designed to deliver the stakeholder value set out in our Digital Strategy and to augment existing open data provision. It allows for more sophisticated development of digital services to our consumers and stakeholders through personalisation of information, automated insights and complex visualisations to drive the most customer value. The underlining digital infrastructure to manage the data provision (in both directions), appropriate authorisations and data manipulation is flexible and scalable enabling this investment to be deployed across many different customers and stakeholders. This system will deliver the same benefits as NPG's CVP web app for Vulnerable consumers, as well as unlock multiple other benefits to support various

customer personas. We would therefore welcome further discussions with Ofgem on the reasons for rejecting our EJP proposal.

Consistent treatment of similar proposals is required to maximise consumer value. Ofgem's current approach could significantly discourage DNOs from implementing innovative proposals as part of their business plans in the future.