

**SSEN DISTRIBUTION RIIO-ED2  
DRAFT BUSINESS PLAN  
ASSUMPTIONS AND  
NEXT STEPS**

RIIO-ED2 Business Plan Annex 37



**Scottish & Southern  
Electricity Networks**

# Contents

1. Overview .....	3
2. Basis of Key Overarching Aspects of the Draft Business Plan .....	4

# 1. OVERVIEW

Our draft Business Plan represents the results of extensive stakeholder engagement and the refinement of our shared ambitions, strategies and investments. It is a work in progress which will develop as we move towards our Final Business Plan in December 2021.

We will continue to refine this plan in the light of feedback we continue to receive from our customers and stakeholders. We will use this feedback and ongoing refinement to produce a Business Plan which delivers a safe, resilient and reliable network, in the most cost-effective way we can.

An overview of the basis of this draft plan and what we intend to complete, refine and/or undertake between now and our Final Plan submission in December is provided below:

- Under our **enhanced engagement programme**, all elements of our draft plan have been driven, informed and tested with our customer and stakeholders and, as we approach our final submission, further testing with our customers and stakeholders will be carried out. Our Customer Engagement Group has been an important critical friend in this process.
- To support the **justification** of our draft plan, we have produced 38 detailed Annexes, 140 Engineering Justification Papers (EJPs) and Cost Benefit Analyses (CBAs). Nonetheless, some elements of our draft plan are based on early assessments, pending completion of further analysis. We will complete all detailed analysis and refinement of our supporting annexes, EJPs, and CBAs for our Final Business Plan.
- We have undertaken a high-level **calibration and optimisation** of the key constituent parts of the overall draft plan to avoid any duplication and allocate activities to primary drivers. We will undertake and complete plan calibration and optimisation exercise between July and December.
- Our plan is based on existing industry arrangements. We recognise that Ofgem are currently consulting through an **Access and Charging Significant Code Review** (Access SCR) on changes to current charging arrangements, which may result in changes to how we charge for connections, with a higher proportion of connection costs to be socialised. We have included some indication of how this might affect our plan, and we will refine our analysis further for our final business plan, including reviewing need for Uncertainty Mechanisms.
- We have a clear **workforce resilience** strategy and a clear **delivery** strategy, which provides us with confidence that this draft plan can be duly, effectively and efficiently delivered. Between July-December as part of the additional work on refining the plan we will also refine our delivery strategy into a clear delivery plan based on further work on sourcing and procurement strategies and market testing with our supply chain.
- Our draft plan includes top-down assessment of **cost efficiencies** from areas such as workforce sourcing, productivity gains, supply chain procurement, enabling IT and innovation. We will complete additional analysis and supply chain testing from July to December to refine cost efficiencies in our Final Business Plan.

- There are areas of our plan which are subject to ongoing **industry and sector wide** discussions, between draft and final submissions, with Ofgem through their established working groups. This includes design of Strategy Delivery Incentives, plus establishing metrics for DSO performance. Work is also required on design of specific cross-sector uncertainty mechanisms parameters, such as unit cost allowances for strategic investment.
- Our draft plan is based on our current view of where we believe we will be at the end of RIIO ED1. Between July-December we will continue to refine our plan as we update our plan for the remainder of ED1, such that we present the most up-to-date and accurate basis we can for our Final Business Plan.

## 2. BASIS OF KEY OVERARCHING ASPECTS OF THE DRAFT BUSINESS PLAN

The table below set outs the basis of key overarching aspects of this draft plan; and what we intend to complete, refine and/or undertake between now and our Final Plan submission.

Focus Area	Key Assumptions/Basis of Draft Plan	Planned Further Activity to Final Plan
Stakeholder Engagement	<ul style="list-style-type: none"> <li>• Over 120 stakeholder events and surveys have been held with a representative range of over 21,000 customers and stakeholders across all aspects of our plan to help co-create and shape our draft plan.</li> <li>• This feedback has been captured in our Stakeholder Engagement “Golden Thread” documentation aligned to each Chapter and appended to each Annex in our draft plan.</li> <li>• We have shared examples of this feedback, and subsequent triangulation process, and tested our resulting view of how it shapes our draft Plan with our SSE RIIO-ED2 Customer Engagement Group (CEG). This has helped validate and refine our draft Plan to best reflect customer and stakeholder feedback.</li> <li>• Finally, this feedback and how it shapes our draft plan is incorporated into the Draft Business Plan Summary document as well as the numerous supporting Annexes, Engineering Justification Papers (EJPs), Cost Benefit Analyses (CBAs), Strategies, and other supporting documentation.</li> </ul>	<ul style="list-style-type: none"> <li>• We will conduct further extensive stakeholder engagement on specific aspects of our draft Plan to enrich existing feedback from customers and stakeholders, This will include testing of business plan outputs and costs, a Citizens Jury and targeted engagement with key segment including fuel poverty advocates and future consumers</li> <li>• We will use this further engagement to help refine all aspects of our draft plan – from outputs, to Consumer Value Propositions (CVPs), to proposed asset investments, to how we propose to deliver our plan, to the level of cost of efficiencies we believe we can achieve.</li> <li>• Following this process, we will conduct comprehensive acceptability testing across all aspects of our Plan.</li> <li>• This will be critical to refining, triangulating and producing a Final Business Plan we can submit to Ofgem, with full confidence it reflects the needs, wants and priorities of our customers and wider stakeholders across all areas - and thus presents a well justified and supported Final Plan.</li> </ul>
Investment Optimisation	<ul style="list-style-type: none"> <li>• Our investment volumes are driven by different factors such as (1) Load growth of Low Carbon Technologies (LCT) and demand, (2) Non-Load asset intervention needs to deliver a safe and resilient network, and (3) Environmental Sustainability considerations,</li> </ul>	<ul style="list-style-type: none"> <li>• We will undertake extensive further work after issue of this draft Plan to ensure there is no potential duplication at any level in our investment volumes collectively formed across different investment drivers – and in</li> </ul>

Focus Area	Key Assumptions/Basis of Draft Plan	Planned Further Activity to Final Plan
	<p>to both mitigate against climate change and reduce our impact on the environment.</p> <ul style="list-style-type: none"> <li>Investment volumes identified are checked against our current RIIO-ED1 investment plan to ensure no duplication in our draft plan of investment we intend to undertake before RIIO-ED2.</li> <li>Specific investments identified as necessary to address a specific driver such as Load growth can have wider benefits such as on the Environment, and/or address other needs in similar timeframes – such as Non-Load related asset replacement.</li> <li>We have identified at a high-level, asset investments which (1) could be driven by more than one consideration, and/or (2) meet overlapping needs and provide overlapping benefits. This has informed our view on the preferred specific investment option and timing for such asset investments in our draft plan.</li> <li>We have then applied high level process of investment alignment and process of de-duplication between Load/Non-Load and Sustainability activities to derive a high-level optimised plan where each investment is clearly tagged to a primary driver even if it applies multiple benefits.</li> </ul>	<p>the light of any updated ED1 investment plan.</p> <ul style="list-style-type: none"> <li>We will refine the profile of investments across our network, applying a ‘touch the network once’ policy to optimise our delivery schedule and to minimise customer disruption.</li> <li>We will also continue to analyse and refine our investment volumes at a detailed scheme level to identify further potential options and opportunities for optimisation of investment timing and reduction of associated spend.</li> </ul>
<p>Deliverability &amp; Supply Chain</p>	<ul style="list-style-type: none"> <li>We have established a clear Workforce Resilience Strategy for RIIO-ED2 which recognises the substantial increase in workload we need to undertake and the requirement for not just increasing our workforce in scale but in capability whilst addressing other important considerations such as addressing Diversity and Inclusion and supporting our local communities.</li> <li>We have adopted a high-level view of our insourcing and outsourcing strategy to deliver the plan based on a combination of how we have delivered to date, and our understanding of the changing delivery needs in RIIO-ED2.</li> <li>We have undertaken early high-level market testing with our supply chain across various elements of our plan where we will be reliant on them to provide both delivery capacity and capability at an efficient cost. This has provided us with a provisional view of supply</li> </ul>	<ul style="list-style-type: none"> <li>We continue to refine and develop our Workforce Resilience Strategy and ensure it is robustly embedded within all delivery aspects of our final plan.</li> <li>We will consider ways to optimise and integrate our delivery strategy and evolve supporting commercial and supply chain models to enable cost-effective, flexible, safe and reliable outcomes for our customers.</li> <li>We will undertake market engagement with different tiers of our supply chain across different areas of plan from Capital Delivery to Digital Transformation.</li> <li>The outcomes of this work will refine our costs and understanding of internal and external capability and capacity. This will allow us to present a robust delivery strategy to meet the evolving needs of RIIO-ED2.</li> </ul>

Focus Area	Key Assumptions/Basis of Draft Plan	Planned Further Activity to Final Plan
	<p>chain driven costs and opportunities for our draft plan.</p>	<ul style="list-style-type: none"> <li>We will develop a mobilisation and transition plan to ensure a successful workforce and supply chain move from ED1 to ED2</li> </ul>
Cost Efficiency	<ul style="list-style-type: none"> <li>We have undertaken detailed disaggregated and also Totex benchmarking of costs versus our peers across all our activities in our draft plan, taking into account regional and other factors where applicable which drive genuine cost differentials.</li> <li>We have also undertaken a high-level assessment of cost efficiencies we believe we can achieve from a range of sources such as more strategic supply chain procurement, increased workforce productivity, deployment of enabling IT, and deployment of innovation. This has, so far, reduced our RIIO ED2 totex forecast by over £150m from RIIO ED1 levels.</li> </ul>	<ul style="list-style-type: none"> <li>We will review our costs following draft submission and against the industry as a whole, assessing where we can improve our own efficiency targets and will look to identify further opportunities if possible where we can aim to reduce our costs.</li> <li>We will use the outcomes of a range of ongoing detailed reviews and initiatives relating to the different sources of potential further efficiencies we can realise, for example, our portfolio of IT projects, and the supplier market testing referred to above.</li> </ul>
Load & Strategic Investment	<ul style="list-style-type: none"> <li>We have selected the DFES 2020 scenario 'Consumer Transformation' (CT) as the overall baseline future pathway for our business plan.</li> <li>Because of the inherent uncertainty associated with the actual pathway to net zero, we are being more prudent in what scenario is used as the basis for ex-ante funding of our load investment during ED2. Whilst we believe the CT scenario provides a credible forward projection for ED2, particularly given the strong evidence of support from our stakeholders, we feel that in terms of efficient funding, our ex-ante baseline allowance should not simply be based on CT for the entire ED2 period. Instead, we believe that ex-ante baseline funding should provide for the minimum investment required under all scenarios – as determined by the System Transformation (ST) scenario, plus the amount required to ensure that no future pathway is foreclosed.</li> <li>LMA strategy will be based on an LCT-led approach whereby we ensure that any LCT-driven reinforcement work also provides for removal of LMA restrictions.</li> <li>EJPs and CBAs produced with DFES scenarios, fully analysed and included within EJP/CBA cost modelling</li> <li>Volumes will be subjected to a level of Investment alignment and de-duplication</li> </ul>	<ul style="list-style-type: none"> <li>Will undertake further assessment of Local Network Plans through engagement with local authorities.</li> <li>More broadly will review and test our proposed Load strategy and Outputs in detail with stakeholders, Ofgem and update where necessary.</li> <li>Will consider a potential refined LMA strategy approach which targets removal of LMA in a small number of defined areas</li> <li>We will refine our demand forecasts to account for Energy Efficiency and pricing led demand side response.</li> <li>We also refine our assumed use of flexibility for smaller schemes and carry out further sensitivity analysis.</li> <li>Detailed cost efficiencies will be baked into final proposed unit costs.</li> <li>We will conduct market testing on a limited number of schemes covering all types to reinforce cost confidence.</li> </ul>

Focus Area	Key Assumptions/Basis of Draft Plan	Planned Further Activity to Final Plan
	<p><i>between Load/Non-Load and Sustainability activities</i></p> <ul style="list-style-type: none"> <li>• <i>Flex assumptions baked in for EHV schemes and flex estimated carried out for LV and HV load related investments</i></li> <li>• <i>Limited efficiencies incorporated into unit costs.</i></li> <li>• <i>Using the common UMs proposed by Ofgem, no bespoke UMs for Load at present.</i></li> </ul>	
DSO & Whole System	<ul style="list-style-type: none"> <li>• <i>Have established an overall DSO Strategy, building on the roles and capabilities developed to date through RIIO-ED1.</i></li> <li>• <i>Have identified key enabling IT and workforce capabilities.</i></li> <li>• <i>Have integrated at a high-level use of flexibility DSO capability provides with more traditional Load related investment, to for example avoid, defer or provide optionality.</i></li> <li>• <i>Our proposals on DSO performance metrics are based on stakeholder feedback and engagement with peer DNOs and Ofgem through working groups.</i></li> </ul>	<ul style="list-style-type: none"> <li>• <i>Further work will be undertaken to detail out the DSO Strategy and resultant implementation plan; as well as to justify the costs and supporting benefits of DSO e.g. interaction with Load related activity.</i></li> <li>• <i>We will work with Ofgem and stakeholders on the detailed design of DSO performance metrics and associated incentive.</i></li> <li>• <i>Will undertake further work to detail level use of flexibility DSO capability provides with more traditional Load related investment as part of refining Load related investment needs and phasing.</i></li> </ul> <p><i>We will progress engagement on whole system solutions in a number of key areas, including support for Scottish Islands.</i></p>
Sustainability	<ul style="list-style-type: none"> <li>• <i>We have developed an Environmental Action Plan (EAP), Sustainability Strategy founded on globally recognised frameworks, and Climate Resilience strategy underpinned by Outputs and linked to our proposed commitment to achieve a 1.5 degree Science Based Targets.</i></li> <li>• <i>Our strategies are aligned to the strategic goal of achieving a 1.5 degree trajectory with a target reduction of 35% in our Scope 1 &amp; 2 emissions by 2028 and 55% by end 2033 (end of ED3).</i></li> <li>• <i>We are committing in excess of £140m to deliver our EAP commitments alone across 13 targeted output areas; and are committed to formally annually report our EAP progress to our stakeholders.</i></li> <li>• <i>Following engagement with the supply chain, we have developed a draft ED2 sustainability supplier code</i></li> </ul>	<ul style="list-style-type: none"> <li>• <i>We will continue to refine and detail our different contributing headline strategies and plans to affordably make the most positive environmental impact we can and embed sustainability into activities across all of our final Plan.</i></li> <li>• <i>We will produce further and more detailed sub-strategies and plans, to reinforce our commitment and Sustainability Action in areas such as:</i> <ol style="list-style-type: none"> <li>1. <i>A fully developed Diesel Strategy i.e. strategies for Remote Islands Generation;</i></li> <li>2. <i>a data evidenced PCB programme of works; and</i></li> <li>3. <i>a fully developed Losses Strategy which is embedded across various asset investment Areas.</i></li> <li>4. <i>a fully developed SF6 strategy which will address leakage rates and target a reduction in our bank</i></li> </ol> </li> </ul>

Focus Area	Key Assumptions/Basis of Draft Plan	Planned Further Activity to Final Plan
		<ul style="list-style-type: none"> <li>5. A fully developed Carbon Removal proposal to contribute to the delivery of Net Zero.</li> <li>6. A finalised ED2 sustainability supplier code including metrics and reporting requirements</li> </ul>
Minimum Requirements	<ul style="list-style-type: none"> <li>• Our draft plan includes our proposals to deliver the minimum requirements as set out in Ofgem’s Business Plan Guidance,</li> <li>• We additionally take account of policy points and direction of travel set out by Ofgem in the Sector Specific Methodology Decision and through Working Group engagement.</li> </ul>	<ul style="list-style-type: none"> <li>• Our final submission will build on the minimum requirements as set out, refining our detailed proposals and incorporating further feedback to ensure our Plan meets the commitments proposed.</li> <li>• We will continue to work with Ofgem and stakeholders through industry working groups to clarify specific areas of the minimum requirements, including DSO metrics and Strategic Investment Uncertainty Mechanism.</li> </ul>
Managing Uncertainty	<ul style="list-style-type: none"> <li>• Our draft plan puts forward our initial view of the appropriate balance of baseline and Uncertainty Mechanism (UM) based funding for our RIIO-ED2 plan, to take into account key uncertainties we face, for example, in the scale and speed of Load growth where we need to meet customer needs whatever the outcome, and the scale and cost of safety and other legislatively driven activities</li> <li>• Our draft plan proposals are based on known unknowns as we see them in July 2021, including in areas where we are awaiting updates on policy direction from Ofgem and other government bodies, for example on Access SCR and subsea cable decommissioning. This means we will need to continue to work with Ofgem and others to ensure our final plan is reflective of the latest policy position.</li> <li>• The draft proposals are based on the common assumptions for uncertainty mechanisms set out by Ofgem through the Sector Specific Methodology Decision</li> <li>• We have worked closely with a broad range stakeholder groups to understand their perspectives on uncertainty, their priorities and the balance of funding with the baseline plan.</li> <li>• We have engaged with other DNOs whilst developing our proposals, mainly through Ofgem working groups. We will continue to</li> </ul>	<ul style="list-style-type: none"> <li>• Our final plan will present a refined view of how we believe it is most appropriate for Ofgem to fund us for activities which have uncertainty of scale, timing and/or cost – including based on the stakeholder feedback we receive to our draft Plan proposals.</li> <li>• We will continue to work with Ofgem and other stakeholders on developing the details of our proposals, including the design of regulatory parameters such as Unit Cost Allowances for Volume Drivers mechanisms.</li> <li>• In some areas of particular uncertainty, we will work through details of UM's with Ofgem and other DNO's through a planned working group and based on dialogue to date. Our proposals may be updated to take account of new policy decisions.</li> <li>• We will continue to work with Ofgem on setting of common parameters for UMs through licence drafting.</li> </ul>

Focus Area	Key Assumptions/Basis of Draft Plan	Planned Further Activity to Final Plan
ED1 interaction	<p><i>work with industry on our proposals where these are similar to those of others.</i></p> <ul style="list-style-type: none"> <li>• <i>Our draft plan takes into account our current view of our ED1 end position e.g. in terms of investments, delivery capability and costs – to help inform our draft view of what we need to undertake and spend in RIIO-ED2.</i></li> </ul>	<ul style="list-style-type: none"> <li>• <i>In producing our final Plan this will include taking into account an updated view of our ED1 end position, to ensure we provide the most updated view of what we need to undertake and spend in RIIO-ED2.</i></li> </ul>