



# **SSEN Distribution Response to ED2 Draft Determination - Annex 4: Interactions with Ofgem**



**Scottish & Southern  
Electricity Networks**

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community

# Introduction

We have been engaging proactively with Ofgem throughout the RIIO-ED2 process. Following the publication of Ofgem's Draft Determination (DD), we agreed to work collaboratively and constructively with Ofgem towards a Final Determination (FD) that is in the interests of current and future consumers. This engagement is particularly critical in the context of the process concerns we have raised in Procedural Issues Annex 6.

This document summarises a number of engagements carried out with Ofgem in the run-up to our final business plan submission through to the end of the DD consultation process. This is not an exhaustive list of engagements, but rather seeks to outline key points of discussion. We look forward to continuing to work closely with Ofgem beyond in the run up to FD.

# SUMMARY TABLE

The following table details our meetings with Ofgem, a summary of the key points addressed during these meetings, and the date at which these meetings took place.

Topic	Summary of discussions	Date
North of Scotland bilateral	This session focused on a deep dive into our M25 costs (North of Scotland). This was following on from a request from Ofgem in our main cost and engineering bilateral on 28/07, to demonstrate how our NoS costs should flow through to the normalisation and modelling processes. SSEN highlighted what further information we would submit in our Draft Determination, including an update to the M25 table to be used for normalisation and further evidence on company specific factors (sparsity, specific operational challenges for islands and sub-sea cables).	12/08/22
Non-load bilateral	<p>The purpose of this session was to discuss key concerns following the face-to-face Cost &amp; Engineering Bilateral held on 28th July 2022. The session covered several key areas across our Non-Load plan including the Monetised Risk outputs, LV/HV UG cable overlays, Inspection &amp; Maintenance, RLMs, OHL Clearances, and Tree Cutting.</p> <p>During the session we discussed the additional evidence that Ofgem requires to reclassify our EJPs as 'Justified' particularly on 'Deliverability'. We described our concerns with the Monetised Risk outputs that have been set, despite the volume cut and the decision not to allow the LiDAR informed tree cutting volumes. We also expressed our concern with the CV7 Disaggregated modelling methodology for 'Partially Justified' EJPs and the disproportional volume cuts it results in when Deliverability is the concern (especially with LV &amp; HV UG cable overlays).</p> <p>We provided feedback on the I&amp;M (CV30, CV31) and Tree Cutting (CV29) cost assessment methodology, and Ofgem agreed to consider our feedback and review their current approach ahead of Final Determination. We agreed to provide additional descriptions on our intervention methodology for NARMs assets and the condition data held, and inspection frequency undertaken on our Pole assets (LV-EHV). On OHL Clearances, Ofgem agreed to review the latest volume data we plan to submit in our DD response.</p>	09/08/22
IT & OT bilateral	This session was set up to discuss Ofgem's feedback on our IT and OT EJPs. This was a high-level discussion only, with further discussions required at a later stage with Ofgem's engineering and IT/ digitalisation teams to ensure we understood feedback and were in a position to respond.	09/08/22
Senior level bilateral	In this session we highlighted key areas of priority for us to achieve a positive outcome at FDs for customers. This includes ensuring an approach to efficiency is rooted in evidence and is achievable, and cost assessment is robust/ error-free, ensuring final settlement facilitates net zero and enables us to deliver for our customers in the North of Scotland. We also noted importance of ensuring our plan is financeable.	05/08/22
Customer bilateral	This session focused on our vulnerability strategy. In particular we discussed concerns with the target for fuel poverty customer satisfaction. We discussed our LCT support proposals, which are community rather than customer-focused, making it difficult for the benefits to be captured through the incentive. We also discussed	03/08/22

	activities proposed for removal by Ofgem from our vulnerability strategy at DDs. With regards to our CVP, we highlighted the additional value that our Personal Resilience Plans (PRPs) bring and were unable to confirm whether other DNOs carry out similar activities as business as usual. Ofgem committed to review their position on this. Finally, we noted our Tailored Insights IT project which is classified by Ofgem as "unjustified" but is similar in nature to one other company's CVP which Ofgem proposes to fund.	
Shetland and Pentland Firth East bilateral	On Shetland, Ofgem agreed to a June 2023 reopener window. Ofgem looking for further information on risk assessment for Lerwick Power Station (LPS) extension. Shetland reopener window to be changed as per our previous agreement. Ofgem acknowledged HOWSUM is probably the best funding route for Pentland Firth East, but further work required post DD submission on HVP reopener design.	01/08/22
Main cost & engineering bilateral	Full day cost bilateral (face-to-face face session in Reading). Key areas of focus included errors in cost assessment methodology, our North of Scotland strategy, assessment of non-load related investments (including the use of survivor models, our LiDAR data underpinning tree-cutting activities, and Ofgem's rejection of our bespoke UMs), and assessment of load-related investments (including application of top-down demand-driver adjustment, and the need for volume driver unit rates to reflect costs incurred). We briefly discussed Ofgem's concerns with our IT/ OT EJPs. This will be picked up at a separate bilateral. We also discussed our control room proposals, with Ofgem signalling they were open to receive additional information and evidence. We briefly discussed our DSO proposals. Last, we raised concerns about ongoing and catch-up efficiency, but this was not discussed in detail.	28/07/2022
Load bilateral	This session focused on load and connections, particularly the UMs, net zero compliance, and the demand driven adjuster. We discussed our view that the baseline funding proposed would not be net zero compliant. Ofgem requested further information on that, particularly on the strategic investment component of our original submission. We also challenged the demand driven adjuster methodology, and Ofgem offered to walk us through the details at CAWG. We also discussed the UM, particularly the volume driver. Ofgem are keen for us to provide evidence on why a single set of rates was not appropriate. Ofgem also expressed an interest in further evidence from us on how funding and indirects could be including while mitigating identified risks.	19/07/2022
Ofgem environment bilateral	Detailed engagement on our Environmental Action Plan (EAP) focusing Ofgem's position on our SF6, Fluid Filled Cable and Nature Based Solution proposals. Focus on providing Ofgem with additional information and understanding how we can best respond to their feedback.	14/07/2022
Letter	Letter to Ofgem outlining our concerns around process, in particular late provision of key models and information required to understand models and replicate analysis.	12/07/2022
Ofgem bilateral	Initial discussion following DD publication on 29 June. Ofgem outlined a number of areas of focus for them going into DD and FD processes. Examples of Ofgem's areas of focus are financeability, ongoing efficiency, and their overarching approach to modelling. Agreement to further discuss some of our concerns, in particular around North of Scotland, UMs and our Environmental Action Plan (EAP).	08/07/2022

Cyber Ofgem bilateral	Ofgem keen to work with us to see full funding awarded at FDs.	01/07/2022
Site visit South	This was a site visit in our SEPD region, with the intent of informing both Draft and Final Determinations. Specifically, Ofgem were keen to understand the data gathering and decision-making processes underpinning our approach to asset replacement. We used visits to selected primary and secondary substations to provide a more detailed overview of our approach. Other topics discussed included our approach to fluid-filled cables and why it differs from other DNOs', and issues around the scale and uncertain nature of diversions.	24/05/2022
Ofgem bilateral	This bilateral focused on Ofgem's upcoming DD. Ofgem outlined their view on RIIO-ED2 which they consider to be a high-powered regime that will be fair and balanced, enabling high-performing DNOs to earn rewards. They noted though they are still working through what this means in terms of interactions with Return Adjustment Mechanisms (RAMs). With regards to cost assessment, Ofgem stated they will be fully transparent and share models/ evidence. They were very clear they consider their analysis to be of very high quality and highly robust. In terms of approach Ofgem outlined a mix of (i) cost reduction driven by efficiency challenges, (ii) volume adjustment (examples given around asset replacement/deliverability), (iii) areas being moved to UMs. Ofgem recognised that costs related to Access SCR are not captured in the business plan, and that there are difficulties in normalising load scenarios. We noted the need to ensure a true step-change in regulation to enable net zero.	18/05/2022
Policy framework letter	We wrote to Ofgem outlining concern with a number of key policy decisions remaining outstanding. Examples include the overall incentive package; arrangements for funding net zero; cost assessment; uncertainty mechanisms; and financeability. We raised concerns that this creates a risk of the regulatory framework deviating from the original policy intent set out at SSMD and in the Business Plan Guidance, noting that our business plan assumes the policy intent as set out in the SSMD.	06/05/2022
Site visit North	This was a site visit undertaken by helicopter in SHEPD, allowing for stops in Coll, Islay and Oban; along with fly overs of all inner Hebrides islands (specific locations and mode of transport requested by Ofgem) Ofgem's objectives were to understand North of Scotland specific issues which SSEN have highlight as different to other licence areas (e.g. subsea cables and remote generation). Key themes from the visit included:  Ofgem stressed visit was to inform post DDs SQs and discussions. They noted the overall quality of our EJPs, but highlighted the need for additional detailed information relating to some our cable proposals. Ofgem recognised the need for a regional specific factor cost adjustment but noted the need for more detail and justification on the quantum.	02/05/2022
HOWSUM and Shetland resubmission	Following a request with Ofgem, we provided an updated business plan submission, moving a number of proposed items of expenditure into our HOWSUM mechanism and a number of Shetland-related investment into our Shetland UM. This was followed by a letter confirming our resubmission and the impact on our business plan.	28/04/2022
Cost bilateral	This session focused on Ofgem's cost assessment methodology in the run up to DD. Ofgem noted that the last working group would take place end of April and would be the last opportunity to engage on cost assessment prior	26/04/2022

	to DDs. Ofgem noted DNOs were unlikely to be provided with full cost assessment information until post-DDs. Ofgem recognised challenges associated with modelling for RIIO-ED2. Ofgem was yet to decide on the level of catch-up efficiency. Ofgem noted they were still exploring options for normalising across load. With regards to regional factors, Ofgem recognised the impact of these on the modelling. Further topics discussed included cost exclusions and drivers.	
Bilateral	This bilateral focused on the recent CEG and Challenge Group (CG) reports. We outlined a number of concerns with the quality and robustness of the CG report. Other topics included regional factors, upcoming Open hearings, and outstanding framework design.	15/02/2022
DSO bilateral	This session was an opportunity for us to walk Ofgem through our final business plan with respect to DSO. We highlighted our strong heritage of operating the network flexibly, our recent experience through LEO, and our extensive stakeholder engagement. We flagged that it was really important that consistency must be applied when comparing plans as some DNOs had used a broader definition of flex, benefits which were unrelated, and timescales beyond ED2. We pointed to the scale of flexibility required in ED2 that our resourcing and funding proposals were designed to deliver and the close alignment with our IT and digital strategy investments which were key enablers. We also pointed out that we were the only DNO to make public a full incentive proposals which include stakeholder informed metrics and incentive calibration. Finally, we acknowledged potential concerns on managing perceived conflicts of interest and set out the additional measures we'll put in place for ED2, building on established layers of control, and referred to the NERA report we submitted with our RFI response that concluded DSO separation would have a negative impact on consumers. Ofgem's questions were quite detail-focused, quoting lines from our plan back at us and challenging on specific baseline expectations, asking questions on the quantitative business case for flexibility, minimum requirements, CVPs, SDIs and CLASS. We agreed to arrange a further bilateral to discuss conflicts of interest and DSO governance due to time constraints.	08/02/2022
Digitalisation bilateral	This session covered our RIIO-ED2 IT plan. Ofgem were looking at ways to compare quantitative benefits across DNOs. We also discussed data architecture and our agile/ iterative approach to delivering IT projects, with Ofgem requesting additional information on this. We discussed Energy Data Taskforce (EDTF) recommendations: we noted that implementation is an ongoing process. With regards to network visibility, Ofgem noted they were broadly content with our proposals. We discussed wider industry changes relating to half-hourly settlement (HSS) and how to treat these best (via UM or baseline). We also discussed one IT project which Ofgem had concerns with.	25/01/2022
Ofgem bilateral	We met with Ofgem to discuss our Network Asset Indices Methodology (NAIM). This is our methodology underpinning our asset management strategy. Ofgem recognised that this represented a positive build on the existing NARM methodology.	19/11/2021

