



SSEN Distribution Response to ED2 Draft Determination - Annex 6: Procedural Issues



**Scottish & Southern
Electricity Networks**

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community

The table below sets out procedural issues with Ofgem's RIIO-ED2 and DD processes that have impacted our ability to provide a robust and considered response, including delays in providing key information, and late changes to policy and methodology.

Issue	Impact
Significant issues with the modelling suite provided on 29 June, including incomplete models, models which did not properly function, and a lack of explanation as to how to use the models.	A fully functioning modelling suite with clear explanations was not provided until 8 July. As a result, we were not able to understand how Ofgem has applied the modelling until nine working days after publication of the DDs. We requested an extension to the consultation period, but Ofgem refused.
Ofgem has departed from its previously stated methodology in a number of key areas and has at times taken an inconsistent approach to applying methodologies, all without clear justification. This includes in relation to cost assessment for asset replacement related activities, IT/OT and the application of a top-down demand driven adjustment.	Further exacerbated issues associated with the modelling suite and difficulty in understanding implications of modelling on our business plan. Limited opportunities to feed into methodology design, leading to a larger number of material errors which must be fixed. A full list of modelling errors is available in Annex 5.
Apparent disconnect between Ofgem's engineering hub and cost assessment teams. No clear rationale to explain how and when engineering assessment has resulted in cuts, for example in relation to non-load, load, and IT/ OT investments.	Further exacerbated issues associated with modelling suite and difficulty in understanding implications of modelling on our business plan. We still do not have clarity on how the engineering assessment will impact cost assessment for FDs. We have prioritised updates to EJPs where the engineering assessment appears to have impacted cost assessment. It would not be appropriate for further cuts to be applied at FDs as a result of the engineering assessment where these have not been signalled and we have not had an opportunity to respond.
The level of detailed feedback received on EJPs was low and in many cases comments were unclear and required further SQs. More detailed information on the engineering assessment was not provided until 5 August and the information was high level and only covered a small percentage of our 148 EJPs. Information did not cover any of our EJPs on load, or IT/ OT.	Further exacerbated issues associated with the modelling suite and difficulty in understanding implications of modelling on our business plan. We still do not have clarity on how the engineering assessment will impact cost assessment for FDs. We have prioritised updates to EJPs where the engineering assessment appears to have impacted cost assessment. It would not be acceptable for further cuts to be applied at FDs as a result of the engineering assessment where these have not been signalled and we have not had an opportunity to respond.
We have sent 51 Supplementary Questions (SQs) to Ofgem throughout the consultation process. Issues with Ofgem capacity has resulted in 33 SQs with delayed responses. We have waited four weeks for responses to a number of SQs relating to our subsea cables. A number of critical SQs on our EJPs in particular received only short high-level answers from Ofgem and clearly did not address the problem or question at hand.	While we were able to mitigate the impact of delayed responses to a certain extent through proactive and constructive engagement with Ofgem, the delays in responding to SQs have further exacerbated the issues associated with modelling suite and difficulty in understanding implications of modelling on our business plan.
Ofgem has taken a different approach to that stated in its Business Plan Guidance and Sector Specific Methodology decision (SSMD), for example in relation to the treatment of strategic investment, target-setting for the vulnerability incentives and use of the survivor Model.	Moving goalposts for SSEN resulting in unexpected cuts to allowances which are not properly explained, for example in relation to strategic investment. We have therefore provided additional information as part of our consultation response to mitigate the impact of cuts. Lack of clarity on how company performance is to be assessed.
Ofgem's process has lacked transparency and clarity throughout. Ofgem's Business Plan	This has resulted in difficult comparisons across DNOs, with opportunities to pull out best practice examples missed, as also

<p>Guidance has failed to drive consistency across DNOs, in a number of areas including scenario planning, vulnerability and Environmental Action Plans.</p>	<p>noted by stakeholders like the CG and Citizens Advice. This has also resulted in additional complex adjustments with regards to load-related expenditure</p>
<p>Ofgem has not taken into account and in some cases ignored the stakeholder evidence underpinning our plan.</p>	<p>As outlined in our Executive Summary, the DD put a number of key outputs developed with our stakeholders at risk. We have outlined how Ofgem’s DDs will impact our outputs in Annex 2.</p>
<p>While Ofgem’s Sector-Specific Methodology Decision (SSMD) was published in December 2020, Ofgem has continued to review its policy and has yet to reach a decision on the design of key incentive mechanisms. In addition, Ofgem is using the DDs to introduce new policy and reporting requirements which were not previously signalled and are therefore not accounted for in our business plan.</p>	<p>New obligations relating to whole systems, and extensive new reporting requirements are being introduced at a late stage in the process without consideration of the impact of significant cuts throughout our plan, in particular in relation to key enablers such as IT and digitalisation.</p>
<p>Concerns that new policy is being created through the licence drafting process, with the potential for onerous new licence obligations being imposed on DNOs without proper consultation.</p>	<p>New onerous obligations relating to customer vulnerability and forecasting are being introduced that have not been accounted for in our business plan and go significantly beyond established policy. While Ofgem is not consulting on the licence drafting until late September 2022 at the earliest, we have outlined key concerns in Annexes 13. We urge Ofgem to consider extending the consultation period beyond the planned four-week period to ensure stakeholders are provided with sufficient opportunity to respond.</p>
<p>Ofgem has disingenuously presented Ongoing Efficiency by not consistently comparing base years</p>	<p>Ofgem’s consultants CEPA argues that company proposals for OE range between 0.5% and 1.0%, with no single DNO proposing a challenge above 1%. CEPA also argues that, due to an earlier starting point, UKPN’s OE efficiency assumption of 1.0% per annum and SSE’s assumption of 0.7% per annum translate into an efficiency assumption of 1.4% for the former and 0.97% for the latter, calculated on a like-for-like compound annual growth rate (CAGR) basis for five years. This statement is a clear error and misinterpretation of the UKPN and SSEN submissions.</p> <p>These DNOs applied the OE assumption on the base year 2020/21 and rolled that base cost forward, meaning that some of OE is assumed to be delivered in RIIO-ED1 in order to derive the efficient cost base for RIIO-ED2, while other DNOs applied the OE assumption from on the base year 2022/23.</p> <p>Both UKPN’s and our assumption of efficiencies being delivered in RIIO-ED1 reflects Ofgem’s position and their workings, and data tables. It is therefore inappropriate and inaccurate to compare our CAGR (0.97%; and UKPN 1.4%) with Ofgem’s proposed 1.2% per annum, with the like for like comparative being to Ofgem’s CAGR, which would be well over 1.7%.</p>
<p>Key policy decisions around framework and incentive design have yet to be made and have been further compounded by the descoping of key milestones, for example around the Access Significant Core Review (SCR).</p>	<p>Impact on business plans unclear, with moving goalposts and risk that new obligations or requirements are introduced late without consideration of impacts. Creates additional complexity and limits ability for stakeholders to provide meaningful consultation</p>