SSEN Distribution Response to RIIO ED2 - Draft Determination

Core Methodology, 4. Supporting a smarter, more flexible, digitally enabled energy system

Question ID	Core-Q17
Question	Do you agree with our proposal for implementing a Digitalisation License Obligation?
Response	
We agree with the formalisation of the Data Best Practice and Digitalisation Strategy and Action Plan through licence obligation and associated guidance in ED2, to drive consistent data sharing alongside useful and innovative digital services. However, as we highlighted in our response to the Sector Specific Methodology Consultation, it is important that both sets of guidance should be kept sufficiently flexible to enable rather than restrict our digital investment approach, which needs to be user led in a fast paced and highly innovative area of development. We remain concerned that the overall totex reduction at Draft Determination introduces challenges on our ability to undertake the ambition we have set out in our business plan for ED2. These cost challenges could introduce less efficient and higher-cost manual approaches rather than the move towards smarter and more digital solutions. We are concerned that this cost challenge has not been viewed against the backdrop for the wider industry and could indeed introduce the wrong behaviours, rather than encouraging modernisation due to the compromised deployment of digital tools and services. We do not believe that it helps navigate the challenges we all face and ensuring that our network is fit for the future and could lead to challenges more widely if ambitions in our plan are removed, reduced, or changed.	

Question ID	Core-Q18
Question	Do you agree with our proposal to have staggered publications of Digitalisation Strategies between RIIO-ED2 and RIIO-2 licensees?
Response	
Yes, we agree with a two-year stagger between RIIO-T2/ GD2 and RIIO-ED2 companies. We would appreciate that general feedback on all company DSAPs is shared with all to help inform work in this area and drive the industry forward.	

Question ID	Core-Q19
Question	Do you agree with our proposed Digitalisation re-opener?
Response	

Yes, we broadly agree with the proposed Digitalisation re-opener. For comments on the materiality please refer to our response to Core-Q6 of the RIIO-ED2 Draft Determinations Overview document.

As part of the key drivers for this reopener, Ofgem should include significant customer value as one of the reasons to trigger this reopener. As highlighted in the rationale for Ofgem's position, this area is moving extremely quickly. There is an opportunity for network operators to learn from each other and implement best practice that drive significant value to customers in the digital arena.

On re-opener application window we note the proposed dates, 24th January – 31st January 2026, include two weekend days. We propose the application window is amended to 26th January – 30th January 2026 to encompass only weekdays. In addition, given the fast-paced nature of digitalisation and potential to deliver significant additional value, we would suggest an additional re-opener in 2024.

Question ID	Core-Q20
Question	Do you agree with the proposed enhanced reporting framework associated with IT/OT Data and Digitalisation spend and DSAP investment proposals?

Response
We are supportive in principle of sharing greater visibility on our IT investments. However, we urge caution with regards to the specific implementation of TBM to ensure that it is relevant across all DNOs and is at a level which is representative. Further work is required and Ofgem must work closely with the DNOs on the specific implementation to strike the right balance and ensure value for money for consumers. It is important that digital regional factors are acknowledged in this process, with more digital services and infrastructure available in Southern England compared to the very sparsely populated Northern Scotland. We also request clarification on how this work is due to be funded along with a plan on how the exact deliverables will be mutually agreed upon. We are concerned that in light of the challenging totex allowance, as set out in the Draft Determination, achieving additional adaptations could not be accommodated given the settlement proposed by Ofgem. GEMA should not require outputs that it does not properly fund.

Question ID	Core-Q21
Question	Do you agree with our proposal to adopt TBM as part of the RIGs/RRP?
Response	
No, we do not agree with this proposal. It is too early to adopt TBM formally as part of the RIGs/RRP process, and significant work is required to ensure this is done in a manner that is proportionate and consistent across DNOs. We suggest gaining some mutual experience of sharing information in TBM taxonomy before formally including it in the RIGs or RRP. We expect there will be significant refinement in data shared over the coming years so formalising the output too soon could be unconstructive.	

Question ID	Core-Q22
Question	Do you agree with our intention to modernise the regulatory reporting process?
Response	

We broadly support improvements and streamlining of regulatory reporting. However, this process needs to be developed in close collaboration with all network operators as there are a range of legacy systems and digital maturity. We would expect Ofgem to work closely with us to develop the technical capabilities required to develop this change.

In this context, we were also concerned to see that our Tailored Insights EJP was considered unjustified by Ofgem in the EJP review, despite the project being central to developing much of the capability to share personalised and dynamic data Ofgem is looking to explore.

Given the potential additional costs associated with meeting increased or changed reporting standards, it is critical DNOs are provided with sufficient funding and time to meet any changing obligations. This starkly contracts with the significant cuts Ofgem has applied to our Digital Investment Plan which would pay for the systems needed for modernised reporting. This could be addressed specifically through the digitalisation reopener. Again, GEMA must not require outputs it is not willing to fund.

Finally, we would welcome clarification on the exact nature of the “innovation project” and any interaction with innovation funding. We are assuming this project sits out with the scope of NIA and SIF.

Question ID	Core-Q23
Question	Do you agree with the proposed timeline for implementation of this modernisation?
Response	
Given the uncertainty of the requirements and likely interest from a large number of stakeholders, committing to implementing this in year 3 may not possible and therefore targeting ED3 would be more realistic. Funding will also be critical.	

Question ID	Core-Q24
Question	Do you agree with our proposed design of the DSO incentive?
Response	
We were pleased to see that Ofgem had taken on board many of the recommendations we had put forward in our Final Business plan for a DSO ODI-F including a stakeholder survey and performance panel along with metrics on flexibility and visibility. We had tested a range of metrics with stakeholders prior to submission of our final business plan and they prioritised these areas. Measuring DNOs on delivering DSO capabilities is key in ED2 to ensure value for consumers and gain an accurate picture of the progress that is being made across industry. The current engagement with Ofgem through the SDIWG is invaluable to help shape the final product but there appears to still be many unanswered questions and issues. It is therefore essential that there is a full consultation on the proposed guidance document prior to the final determination so we have an opportunity to review the intended detail. We are also concerned about the high weighting applied to those elements that will be based largely on subjectivity (Stakeholder Survey and Performance Panel), in comparison to outturn metrics and would suggest a rebalance between objective (quantitative) and subjective (qualitative) measures. The concept of DSO is still evolving and this, combined with the nascency of the flexibility market, means that DNOs could (particularly in the performance panel) be judged with high levels of subjectivity rather than Ofgem's baseline expectations of DSO capabilities. This compounds the risk that DNOs expend effort on trying to influence perception rather than delivering tangible improvements. SSEN believe a fairer distribution would be 25% for the Stakeholder Survey and 25% for the Performance Panel with outturn metrics weighted at 50%. We propose undertaking a trial year one to mitigate some of the associated risks. This would also offer the opportunity to inform setting of baseline and targets, to ensure that these are appropriate and fair. In relation to the Performance Panel Report we propose a page limit is set and a simplified template is set that is consistent with the focus of the Regulatory Reporting Evidence and outturn metrics. We note further detail is still to be published through a Guidance Document which will be consulted on prior to the Final Determinations. SSEN believe this is suboptimal and Ofgem should have made decisions earlier to ensure there is sufficient time for adequate consultation. It is vital this includes greater detail on the Stakeholder Survey and the Performance Panel to ensure we have an opportunity to address some of the issues above. We still have two DSO Incentive working group sessions scheduled with Ofgem and the other DNOs to finalise the DSO ODI-F, so we look forward to discussing the above point in more detail, (along with a couple of inconsistencies we have noticed in the formulas for the metrics) and receiving the Final Guidance Document in time for a meaningful consultation prior to the Final Determination.	

Question ID	Core-Q25
Question	What are you views on the outturn performance metrics and RRE we are proposing to include in the DSO incentive? If you do not support their inclusion, please outline which alternative outturn performance metric(s) or RRE you think should be included in the framework instead.

Response

We broadly agree with the outturn metrics put forward by Ofgem in the Draft Determinations although the recent DSO Incentive Working Group highlighted some elements that we feel undermine their effectiveness.

We believe extending the Flexibility Market Testing metric to the secondary network is premature due to the volume of reinforcements that would need to be assessed versus the extremely low levels of currently available flexibility. In fact, most of the flexibility that is being harnessed at the secondary level is currently being aggregated to address issues on the primary network. At the recent DSO Incentive Working Group, on 2nd August 2022, a representative from Octopus suggested the metric is separated into a primary version that would be based on Ofgem's current proposal of 100% target and a secondary level version, that would be 'incentive-only' to grow flexibility at above a materiality threshold. SSEN would suggest this materiality threshold for the secondary level incentive is agreed as part of the intended guidance document and reviewed further in RIIO-ED3, in line with the roll-out of LV visibility. In addition, there should be clear rules around what reinforcements are applicable and we expect this to be set out in the guidance document and consulted on (e.g., all assets are eligible for flexibility, but reinforcements related to services and faults should be excluded with a focus on thermal and voltage constraints). There also needs to be a clear definition of what constitutes market-testing – is a Common Evaluation Methodology CBA completed for every qualifying reinforcement (see comment above) or is it establishing whether there is appropriate flexibility available in the vicinity through industry notifications? SSEN would expect the Guidance Document to also consult on these aspects (i.e., eligible reinforcements and definition of market testing).

There is also reference to a DNOA with the equation denominator set by Ofgem for Flexibility Market Testing. We believe the denominator in this equation cannot be consistently defined across all DNOs as the DNOA is not a standard DNO publication required by licence. It is a document published unilaterally by some DNOs set to their own self-defined standard. We raised this in one of the DSO Incentive Working Group and in our reverse SQ SSEN-22 and Ofgem confirmed that you expect a DNOA or equivalent. You have stated there is no intention to introduce a new licence requirement to produce a DNOA. The proposal in paragraph 4.81 in the Core Methodology document is for DNOs to use the Common Evaluation Methodology (CEM) tool to demonstrate they are market testing for flexibility. As a prerequisite, you would expect DNOs to utilise a DNOA **or similar process** (at SSEN this is captured in the Network Development Plan) to identify the full set of load related schemes which could be run through the CEM tool. We would ask you to clarify that in the Final Determination.

We were disappointed to hear at the recent DSO Incentive Working Group, on 2nd August 2022 that the Network Visibility metric does not include in scope smart meter data or data analytics. During stakeholder consultation for our RIIO-ED2 Business Plan we had strong feedback that network visibility should be achieved in a cost-effective manner. As the metric stands, it incentivises networks to spend on monitoring even when insight is provided by other, more cost-effective, means and encourages targeting of urban areas where there are more customers on a circuit. In addition, this focus on hard monitoring in the ODI (rather than smart metering and data analytics) appears to be at odds with your concerns that deliverability of LV monitoring is a risk in ED2 (our EJP was deemed *'partially justified'*). Removing more cost-effective means of achieving LV visibility from the incentive will only increase the issue of deliverability.

A further point raised at the recent DSO Incentive Working group, and also by us in reverse SQ SSEN-022, was Ofgem's acknowledgment that there appears to be an issue with the formula for the Curtailment Efficiency metric. In Table 10 curtailment efficiency is defined in an equation where H_i is duration of curtailment in hours for user i, A_i is the MVA reduction in access for user i, and A_t is total MVA access for all users on non-firm connections. We believe this equation is not dimensionally homogeneous because the units of time (H_i) only feature on the numerator and not the denominator. Therefore, the equation is not a representation of efficiency, which should be a dimensionless measure (i.e., numerator and denominator equally dimensioned). To correct this, we suggest multiplying the denominator by hours in a year (8760), which will produce an annual curtailment efficiency.

We are also concerned that the Curtailment Efficiency metric is both reward and penalty. The recent Access SCR decision means that DNOs exceeding a customer's level of curtailment will be penalised from 1st April 2023 so this metric provides for a double penalty. Our view is that a more appropriate and relevant approach would be to incentivise performance above and beyond what is agreed with the customer in their contracts after 1st April 2023 considering the recent Access Significant Code Review. So, if curtailment matches what was agreed in the contract there is no penalty or reward, curtailment above this level attracts a penalty and curtailment below this level attracts a reward through the incentive.

In terms of Regularly Reported Evidence (RRE) our principle concern is the volume of data that is requested, particularly in light of the proposed cuts to our IT plan, which will make these additional reporting requirements difficult to deliver (see Core -Q17). The RRE should be simplified to provide more focused and meaningful information and any duplication and/or overlap with other reporting requirements should be addressed with common definitions adopted (the ODI needs to be DNO agnostic). There also appears to be an opportunity to bring reporting efficiencies, (e.g., within RRPs and SLC31E reporting) which could help to reduce resource requirement and associated funding of DSO Incentive specific reporting activities.

We would suggest that it might be better to cap the number of RREs at nine and make clear their relationship to the three core functions of DSO (i.e., three RREs for each function) with each of the three areas aligning with existing reporting requirements where possible. For example, the first column of the table below would come from the DNOA or equivalent and the third column would come from the Flexibility Report SLC31E.

Planning & Network Development	Network Operation	Market Development
Forecasting Accuracy	Operational Data Sharing	Flexibility Procurement
Investment Decisions Review	Data Publication	Flexibility Market Participation
DNOA (or equivalent) outcomes	Error corrections issued for dispatch	Flexibility Dispatch

Question ID	Core-Q26
Question	Do you agree with our proposal for the DSO re-opener?

Response

In our response to Ofgem's Call for Input into the Future of local energy institutions and governance, which was supported by independent quantitative analysis from NERA Economic Consulting, we noted clearly that we believe an integrated DNO-DSO governance model remains the best approach to enable net zero at lowest cost to consumers. Our response to the Call for Input also explains that we believe further reform is needed to enhance the capabilities and capacity of local authorities to engage with planning at a sub-national level, but that this can be achieved out with the RIIO-ED2 framework.

As such we do not believe it will be necessary for Ofgem to trigger a DSO re-opener within the RIIO-ED2 period. Nevertheless, we appreciate why Ofgem have chosen include a re-opener, including retaining optionality should better information be revealed during RIIO-ED2.

The proposal for a DSO re-opener as outlined by Ofgem it remains at a high-level and we believe Ofgem needs to take account or refer to the following points:

- Ofgem providing further detail within the definition of the re-opener on the pre-requisite evidence threshold required to trigger the re-opener within the RIIO-ED2 period and how this will be independently validated. Ofgem have provided no explanation of this within RIIO-ED2 Draft Determinations – Core Methodology Document, paragraphs 4.87 – 4.95. Whilst Ofgem are reviewing several "reform options" as set out in paragraph 4.95 there needs to be clarity on evidence thresholds.

- An Impact Assessment, as required by section 5A of the Utilities Act 2000 being undertaken by Ofgem to justify that any reform options being proposed being firmly within consumer interests once all necessary costs and benefits have been considered.

- Ofgem providing a clear timeline and order of pre-requisite activity that needs to be undertaken prior to triggering the re-opener, including timing of statutory licence consultations, pre-requisite legislation and impact assessments. This timeline should also demonstrate how Ofgem intends to arrive at a conclusion by early 2023.

- Our comments on common materiality threshold being taken into account, as per our response to RIIO-ED2 Draft Determinations – Overview Document, Core-Q6.

Question ID	Core-Q27
Question	Do you agree with our proposal to introduce a new whole system strategic planning Licence Obligation?

Response
We welcome the intent of introducing a new Whole System Licence condition. Our extensive engagement with local authorities through our DFES process and innovation projects such as Project LEO and RESOP was highlighted in our RIIO-ED2 Business Plan, and we are committed to improving whole system approaches through working with partners such as the Energy Systems Catapult. The required step change in the resources applied to this area in RIIO-ED2 was captured in our Whole System Support CVP. This CVP outlined the incremental investment that would be needed to support local authorities in their journey to net zero. The outline of this Whole System Licence Condition points at very similar activity and our CVP was accepted with no reward. Whilst our proposal to work with Local Authorities has been accepted as a baseline activity, we do not agree that this is the same as what is expected as a BAU activity. We set out a clear distinction between what our BAU baseline was and how our CVP sought to deliver further value, which in the absence of the CVP would not be delivered. We also disagree that this should be wrapped into BAU as it is more than the minimum requirements as presented by Ofgem. We do not agree with the decision to retrospectively adjust expectations higher and to remove the possibility of a reward for doing the right thing. We also disagree with the decision to fund the activity only partially within the baseline, and we urge Ofgem to reconsider the decision that this activity is baselined. The Whole System Licence obligation clearly recognises that stakeholders have pressed us to undertake these activities and they see the additional value that they will bring, directly and indirectly to consumers. However, without seeing further detail on the proposed new obligations it is difficult to reliably confirm the extent to which sufficient funding will be available through our RIIO-ED2 baseline. As it stands, we have concerns about our ability to deliver on its aims without any dedicated allowed investment. We therefore would welcome more detail about the scope of this proposed licence condition and the right for further engagement with Ofgem on the appropriate level of funding to deliver.

Question ID	Core-Q28
Question	What are your views on the digital tools that could be used to support this?

Response

To enable effective data sharing and coordinated activity, consistent interoperable data is key, along with effective ways for stakeholders to understand, contribute and ingest this data. As part of our IT investment plan, we had already addressed these requirements with our **Tailored Insights** package which builds on existing work with organisations such as the Greater London Authority to create shared, holistic, open datasets where consumers can obtain the information they require from a single source. This key investment extended that capability enabling data to be shared, personalised, and visualised through a two-way channel facilitating the following key considerations in support of effective whole system data sharing:

1. Interoperable data needs to be agreed mutually to ensure is it adopted and effective – **Tailored Insights** would allow input from wider stakeholders
2. Data is the starting point, however relevant, timely and useful information, visualised in a meaningful way with **Tailored Insights** would be a more effective way of enabling collaboration, particularly with customers and stakeholders with lower specialist knowledge
3. Whole system data sharing is a two-way process, **Tailored Insights** would allow data flows to be reciprocated and be anchored in valuable and established whole system processes

Unfortunately, the EJP to support the **Tailored Insights** investment was deemed “unjustified”. We address the EJP decision in our **Distribution IT – DD Responses (Annex 16)** but without this capability (and the tools it brings), it would be challenging to enable meaningful whole system capabilities that would drive value and ensure visibility for all stakeholders. We request there is specific additional funding allocated to the baseline for this investment which is not reduced further through company benchmarking.