Transcript – SPEN ED2 Open Hearing – 24th March 2022

Steve McMahon, Ofgem, Deputy Director, Network Price Control Setting – introduction:
Good morning and welcome to our penultimate RIIO ED2 Open Hearings, this time with SP Energy Networks.
For those who don't know me or haven't joined one of the previous sessions, I'm Steve McMahon, Ofgem's Deputy Director for Network Price Control Setting and the SRO for the ED2 programme. Before handing over to Jonathan Brearley, Ofgem's CEO, for some opening remarks, I will briefly cover a few housekeeping issues for today's event – and apologies to those of you who may have heard many times, potentially, previously.
Firstly, all attendees should note that the session is being recorded and a transcript will be published including all the questions posted in the chat from participants. The session is also operating as a moderated Teams session, so the visible participants should currently be limited to the Ofgem panel members, the SPEN attendees and the representatives from the independent ED2 Challenge Group and the SPEN Customer Engagement Group. From Ofgem, alongside myself and Jonathan, we have John Crackett – non-executive director and Akshay Kaul, the Networks Director. From SPEN we have Frank Mitchell – CEO, Scott Mathieson – Director of Network Planning & Regulation, Kendal Morris – Director of Customer Service and Iain Divers who is Head of their RIIO-ED2 programme. From the Challenge Group we have its chair – Roger Witcomb and its member, Bob Hull. From the SPEN Customer Engagement Group we have its chair, John Howard and its member – Sam Ghibaldan.
All other attendees will have their cameras and microphones disabled in the meantime – if you do want to participate in the Q&A then please post your questions for each of the sessions in the chat along with your name and organisation – so don't use the 'raised hands' function as would be normal in a Teams event. The questions are being moderated by some of my colleagues and if your question is selected then we will come to you and we'll enable your camera and microphone for you to pose your question to the SPEN team. You will still have to unmute yourself from your laptop, we did have a few issues with that functionality on this. If, for whatever reason, the technology won't let you appear then I will cover the question on your behalf. Time is limited so it's unlikely that we'll be able to cover every question but these will all be collected and we will look to ensure they are covered as an addendum to the post meeting transcript. The session will run for 2 hours starting with a 15-minute presentation from SPEN. We have two thematic sessions with a short break in between. Theme one is 'Preparing the Network to meet Net Zero at lowest cost to customers', theme two is 'Delivering world class service and ensuring no one is left behind'.
Our experience of the first four hearings suggests we might run slightly longer on the first session given the range of important issues that covers. The Challenge Group and the Customer Engagement Group will open the questioning for each of those sessions and then we will come to the Ofgem panel and wider participants for their questions.
Finally, just a reminder that the focus of today is SPEN and their business plan, not the wider regulatory framework or the Challenge Group or CEG report so please prepare your questions on that basis.
So, hopefully that's all clear and without further ado, I'll hand to Jonathan.

Jonathan Brearley- Ofgem – CEO - opening remarks:
Thanks, Steve and welcome, everyone, to what I think is our penultimate open hearing with Scottish Power, so first of all, thank all you who've been attending these for the effort you put in and we are getting a huge amount of valuable debate and contribution to the price controls in general.

What I will do over the next few minutes is just set out a bit of context for these local networks that we're planning and regulating and some of the reasons as to how that feeds into the sorts of questions we will ask.
So, as ever, I do want to start with the current situation and just to express that Ofgem's thoughts remain with the people of Ukraine during this incredibly difficult time. You know, we know that the situation between Russia and Ukraine is devastating. Equally, it has quite profound consequences for our energy market, both in the short term and in the medium term.
Now as is public, the Prime Minister intends to publish his updated energy supply strategy very soon, and I think we all know that as part of that we will be expecting to see it going further and faster in developing and rolling out our low carbon technologies.
And now, more than ever, doing that in an efficient way, in a cost-effective way and maintaining the reliability of our system overall is something that is especially important as part of this price control.
And equally we need to learn the lessons from all of the storms we've had this winter to make sure that both the resilience of our system and the response of our companies and the wider authorities matches the needs and expectations that our customers reasonably have. So, what does this mean for this price control? What does this mean for local networks?
First thing we do need to have a baseline and a set of uncertainty mechanisms that can meet any challenge in terms of future demand and we at Ofgem accept that part of that will be anticipatory investment and we need local network companies to be working with all of their stakeholders to make sure we are shaping and adapting that to what may well be very different local circumstances.
Next, if we're going to deliver on the aspirations of customers to have a reliable and cost-effective grid, we do need to make sure that our local grids become smart and flexible and able to adapt to the circumstances we've got in the most cost-effective way possible.
And, as ever, as a regulator, you know, we want to make sure that what is built, is built efficiently and that returns to shareholders are reasonable and balanced, so this really is a chance for stakeholders to get involved. I think out of all of our price controls, this is where it's most important that we have a debate around the future shape of these networks, so I'm looking forward to the Open Hearing session. So, what I'll do now is hand over to Frank and the team for their company presentation.

Frank Mitchell – SPEN
Thank you, Jonathan, and before I hand over to Iain Divers, who's going to run through our presentation, who's leading our ED2 team, I just wanted to say a few words.
Our ED2 business plan has been built upon our ED1 plan where communities and customers were at its heart.
Again, in ED2, we put communities and customers at the centre of our plan with a hundred customer commitments, supporting their Net Zero ambitions at their pace and ensuring a just transition where nobody is left behind.
SPEN support three major cities; Glasgow, Edinburgh and Liverpool, but we also support large rural communities in Southern Scotland, Shropshire, Mid and North Wales.
We produced our business plan by consulting with over 19,000 stakeholders, including our 39 local authorities and industrial and domestic customers as well as wider stakeholders.
Stakeholder engagement is always a fundamental to our business. To that end, we are independently audited each year on our stakeholder engagement by a company called Accountability who recently rated us in their highest category available. In fact, we're in the top 10% they measured globally on stakeholder engagement.

I was also pleased to note that 85% of our domestic customers support our ED2 plan. I'm delighted that under Jonathan’s leadership, Ofgem now recognise importance of place, that one size does not fit all and that the pace of change to Net Zero is not purely set by Westminster.
Our stakeholders have told us that Net Zero is critical, but we must do so efficiently and so we included some £500 million of efficiencies in our baseline plan.
We were also the first DNO to publicly produce a DSO strategy and in our DSO strategy in this plan we delivered direct benefits of £370 million with a further mid case of £1 billion from indirect benefits.
I'm proud of SPEN’s strong track record in customer service. Over the last four years, being in the first or second DNO group in Ofgem’s own measure. We're the first DNO to be awarded the BSI Kitemark for customer service and in the UK Institute of Customer Services All Sector Regional Survey, we rate higher than most high-profile brands.
We will continue to target exceptional customer satisfaction scores in ED2 with a committed target of 94%, but we also recognise that many of our communities we serve are in the most disadvantaged areas of the UK, so we remain focused on our most vulnerable customers across ED2.
That is why, despite a proposed increase in investment and local job creation, our average domestic customer across our DNOs will pay around the same as they did in ED1 at 30p per day.
I'm pleased to also say that our ED2 business plan is supported by the Scottish Government, the Welsh Government and also the Liverpool City Regional Combined Authority.
So thank you for that and over to you, Iain.

Iain Divers – SPEN
Thank you, Frank - I will just share my screen just now.
So good morning all, I'll just take you through a few slides that will state our position on today's themes.
So, our RIIO ED2 plan will be pivotal to enabling Net Zero for the three governments that we serve.
Our network has been built incrementally over the course of a century and now faces a customer driven revolution as we head towards legislated Net Zero targets and the stark reality is that we have to help enable interim greenhouse gas reduction targets of between 63 and 75% by the end of this decade. That means a rapid change of pace and that's why one of our fundamental tasks in RIIO ED2 is to ready the network for Net Zero.
So, how will we achieve this? First, we are unlocking the value of the grid. As society decarbonizes our distribution future energy scenarios anticipate significant increases in demand and generation on our networks. To meet this pace of change, we first have to get the most from our existing assets, and so we've embraced the new opportunities from flexibility.
In the ED1 period itself we tended for 250 megawatts of flexibility. That includes the first ever tender and the execution of a contract for reactive power services and in ED2 we'll continue to use and push this pivotal tool. That's why, for ED2 so far, we've already tendered for another 1.5 gigawatts of flexibility across 1500 contract locations.
That's equivalent to 99% of our peak demand increase from 2020 to 2028, so flexibility will be a fundamental part of our approach, and it's important to recognise also that will change the shape of risk in our business as we execute many more of these contracts in future.
But we understand that Net Zero means going beyond the bounds of our system and looking at the whole energy system, so it's about heating, it's about transport, it’s about housing efficiency, for example, and that's why, already, in ED1 we're collaborating with the likes of Cadent Gas and Scotia Gas Networks to explore opportunities from hydrogen, it’s why we're exploring decarbonisation planning with the Net Zero Northwest, with Liverpool City Region and the Scottish Cities Alliance. And we're also building a new understanding of whole system solutions between electricity transmission and distribution, so we're going to build on this in ED2, such as, with new collaborations with the energy systems catapult and a new

dedicated team to identify all the facets of the whole energy system and how - what is the role that we can play?
And one important aspect that we're hearing right now from our stakeholders is the power of our models. The power of our datasets to reveal new insights, to stimulate new thinking in the development of whole system benefits and opportunities.
But ultimately, our job is about making sure the electricity network is fit for purpose for whatever future emerges and delivering efficient outcomes for customers.
So to do this for RIIO ED2, we have built a revolutionary model of our network, a digital twin of our network, we've integrated network data, customer data, geospatial data, and our DFES to analyse what Net Zero means at the lowest level, home by home, street by street.
We have modelled to the all – to our Net Zero targets in 2045 in 2050 and every half hour interval to the end of this decade across all of our assets and across all of our DFES scenarios - that's 48 billion modelled permutations, and that's why we can support and we have confidence in our intervention plan for Net Zero. It's tailored to local needs, and it's why customers can have confidence in our plan.
And our value is inherent in our optioneering approach as well, where our plan has a facility to save up to £145 million through flexibility across the range of our scenarios and for our baseline plan itself, we've embedded £36 million of efficiency through flexibility. That's 10% of our demand reinforcement plan.
But we also recognise the uncertainty ahead, and that's why we've positioned our baseline plan towards the lower end of their Net Zero scenarios. So, our baseline plan will enable over 1,000,000 EVs and heat pumps to connect to our network and also the connection of almost another 5 gigawatts of distributed generation; that's over double what we have installed today.
And so as we seek to keep costs down, we'll seek to keep decarbonisation on track, but we want to build in an agile response to changing customer demand using uncertainty mechanisms to make sure we follow whatever Net Zero pathway emerges.
So, to make sure we realise benefits for all of our communities on the path to Net Zero, we've reflected their voices and needs in the fabric of our plan. Over the last two years, we've engaged over 19,000 customers and stakeholders, and they've shaped the ambition and commitments within our plan. And as Frank referenced, this is built on the success of our ED1 engagement where global experts, Accountability, have placed us in the top bracket globally for engagement.
So first, what do we hear from our stakeholders? We see that local authorities have a challenge in realising Net Zero. There's many different pathways, many challenges, there's a gap in specialist support, and that's why so far we've engaged directly with all of our governments and with 27 local authorities so far to review our engineering models and help build localised understanding of Net Zero.
And in ED2 we'll take that forward through our strategic optimised proposal, a specialist unit to collaborate with local authorities hand in hand on decarbonisation planning and help to bridge some of those gaps that they tell us about.
Our models also anticipate a significant increase in customers seeking to connect to the grid, both industrial and domestic, and so their ask of us is a straightforward one; How can we improve our service and make the process for them quicker and easier? And so we'll do this by enhancing our connection processes for £20 million of digitalisation investment to make them more efficient, more comprehensive, more tailored, and through this strategy set new standards for pace and for service.
And for our domestic customers, we've listened to their views and vulnerability. We'll deliver our largest ever support programme, delivering over £62 million of social benefit that will focus on specific groups such as those in or at risk of fuel poverty to reduce their energy costs and provide access to wider support.
So, this is a crucial time for our sector, it's why engagement is so vital, and through this extensive, open, meaningful engagement programme, our customers and stakeholders have told us what's important to

them and as we go through the remainder of this price control process, I think it's important to remember that we all have a role in recognising their voices as we reach its outcome.

And as we enable Net Zero with pace, as we deliver superior service and we keep our costs low, we also have to address the fundamental challenge of an ageing asset base. The reality is the bulk of our assets were installed between the 1970s and the 2000s with turnover rates of between 1 in 50 and 1 in 200 years.

That's why our approach to safety, to security and resilience is at the core of our plans and our track record demonstrates this.

Look at overhead line resilience. We've been punching above our weight for some time. That's why in ED1 we have 20% of industry investment for 15% of network length and we'll extend this philosophy again in ED2 on a further £180 million on overhead line resilience.

On legacy safety issues we’re also tackling this ahead of our peers. For example, we are renewing the internal wiring in tower blocks and multi-stories and tenements where we're delivering 80% of the industry's investment in ED1 for only 12% of the customer base.

And we're proud of our track record and reliability, where in the last decade, we've delivered a 30% improvement in CML and we're taking this further in ED2 for 19% reduction in CI and CML.

And this asset management approach is why, when Storm Arwen hit in December, 88% of our customers were back on supply in 24 hours, 96% within 48 hours. Now, while this once in a generation storm provided many challenges, our long-term resilience approach did deliver benefits to our customers and as part of our review we're also considering the impacts more specifically on our rural communities and what more we can do to enhance their resilience.

And also our network integrity will be tested in new ways as we open up the grid and evolve into the distribution system operator model, we'll push the operational envelope of our network, increase utilisation and deliver benefits for our customers, and crucially focus on the last mile of our network - the LV system that connects directly to our customers’ homes or businesses, and so that we can enable customers to adopt LCTs without compromising the service we provide or the safety that we pride ourselves on.

And all this stems from our balanced strategy of asset modernization in ED1 - we're proud to say we deliver on a regulatory contract, and that's why we're delivering marginally more asset risk outputs for 12% less cost so far in ED1.

We don't defer, we don't short-change our customers, we do what we say and we’ll do the same in RIIO ED2.

And to address the final aspect of themes for today's session, how do we help ensure that no one is left behind?

So, first we recognise that vulnerability is a complex, changing picture. That's why we're going further in ED2 to understand the needs of vulnerable customers and deliver tailored solutions. This means considering wider aspects of vulnerability such as digital exclusion. It means leveraging new models such as a coalition of partners and providing one stop wrap around service for customers and it means delivering benefits to 276,000 vulnerable customers, such as reducing their energy bills by around £100 for fuel poor customers through energy saving technology. That's equivalent to our average domestic bill and across both our licence areas and we also consider this through the lens of the communities in which we serve. Through our Community Energy Strategy, for example, we will support access and development for community energy projects and anchor organisations.

We're also proposing our distribution Net Zero fund, rolling out the demonstrated benefits from our RIIO ED1 Green Economy Fund, unlocking funding for grassroots, green projects and creating jobs and supporting vulnerable customers and, as I discussed, it's also about supporting local planning for transport and heat decarbonisation, delivering savings and adding momentum to decarbonisation.

So through all of this, we're aiming to support a just transition, enabling decarbonisation while supporting social inclusion and economic benefit to our customers and communities.
To conclude, Net Zero is the challenge of our time. RIIO ED2 is pivotal to its success. Our plan will enable the Net Zero targets and ambitions of the governments and communities that we serve.
We will do this without compromising on the safety, security or the service on which our customers depend and will bring our communities with us and leave no one behind enabling a just transition.
So that brings the presentation to a close and I'll hand back to the chair.

Jonathan Brearley – Ofgem
That's great, so thanks to everyone for their company presentation. I'm now going to hand over to the Challenge Group and to Bob Hull.

Bob Hull – Challenge Group
Hi, good morning, everyone. If I could start off by asking some questions about your expenditure plans. Overall, if you include the uncertainty mechanisms, you're looking for potentially greater than 40% increase from the current expenditure levels, which is quite a significant amount.
I'd like to focus on the - taking load related expenditure out of that, looking at the underlying expenditure that you have on your existing asset base going forward and that shows an increase of about 30% overall and I'd like to focus on a couple of specifics in that, particularly your non-load related capex which shows significant increases and your network operating costs which also seem to be increasing at higher levels than other DNOs.
Some DNOs are showing reductions in that area through their efficiencies. Why - why are yours increasing?
Ultimately, I suppose the question is why haven't you been able to control these costs and deliver value for money for consumers?

Frank Mitchell – SPEN
OK yeah, thanks Bob. Well, I think - I think we need to break that down a bit and I'll make some comments and I'll hand over to Iain and Scott, who can maybe comment on some of the specifics around it. So, we believe that when you look at like-for-like underlying expenditure, we are driving efficiency in our plan and we can demonstrate that through some of the specifics, but also we're recognising we're dealing with an ageing access - ageing asset, that's getting - that's getting more stress as we go through what we see in the future in front of us with Net Zero.
So, perhaps to go into the specifics, I'll maybe ask Iain and Scott to comment on your question.

Iain Divers – SPEN
Sure, Frank, I'm happy to pick up that first - I'll hand over to Scott, as well.
So, Bob, on our non-load section - just to pick up a few threads of this on non-load expenditure - so we are increasing investment in a few key areas.
So first of all, I would say around asset modernization, so as Frank mentioned, as I discussed in the presentation, we have an ageing asset base and so we're seeking to attenuate a 22% increase in asset risk throughout RIIO ED2. However, we're also tolerating a 5% absolute increase in risk, so we're investing that underlying asset base, increasing the resilience, increasing the capability of our network as well. Also, under non-load we are investing for DSO, so that's fundamental to enabling- to enabling Net Zero, it's about enabling flexibility, for example, enabling LCT connections, enabling more DG in our network. So, we're investing in the new architecture and the fabric of our network that will allow that such as network

visibility, such as role of constraint management zones for example as well and there's also increases in other aspects of our plan, particularly environmental.
So, around about tackling PCB's and pole-mounted transformers for our 2025 legislative target date – it's about improving, also, environmental performance of our asset base as well and all of that is supported by customers, also. So, the thing that, kind of, that - there's a lot of improvements are in our network that's supported by customers and is also supported by efficient unit costs in ED2.
And just to pick up the last point around about NOCs, of course, so we recognise there's some increase in costs and our Network Operating Costs. Again, we're expanding the work that we're doing in that area. We're doing more ETR132 tree cutting resilience. We're inspecting and maintaining more assets, particularly the low voltage cut outs for example, and we also see some increases coming through in our cost base as well, but we think that we're delivering great value for the customer that would demonstrably benefit them in terms of reliability, in terms of resilience, in terms of underlying asset performance as well. So, I'll hand over to Scott, I don't know if you have any other perspectives on it.

Bob Hull – Challenge Group
I mean just to, sort of, add - I mean, it does seem to be a contradiction in that you're investing, sort of, more in assets, presumably so they're more reliable, but then you're also increasing the costs to maintain less reliable assets.

Iain Divers – SPEN
So, just to pick up on that specifically, Bob, I guess what we're saying is that what the assets - we're actually expanding, our maintenance and inspection following, for example, the smart meter programme - we do have more - we're investing more in maintaining and inspecting assets in the low voltage network, because that's really the frontline of Net Zero.
So, we've got 3.5 million connected customers, so in ED2 alone, I think it's like 150,000 cut outs that we'll have to bring into our regular inspection programme itself, for example, and we'll complement that through visibility, through LV monitors and through smart meter data as well. So, we're expanding our capability, as well, is what I would say.

Bob Hull – Challenge Group
I mean, just to follow up on a point that you raised about unit costs, I note that your plan includes forecasts for real price effect increases of over 8%, which is the highest of all the DNOs, which equates to £270 million that you're, sort of, putting in there through cost increases that you're not able to control. So, what -why is that? What? Why aren't you able to control these?

Scott Mathieson – SPEN
Yeah, I'm happy to pick that up, thanks.
So, Bob, I guess - couple of things that I would make the remark on. So, first and foremost, we employ independent consultants to come up and look at the index.
I think - yeah, we would all acknowledge as you look at the geopolitical environment at the moment we can see an exogenous shock in the supply chain and what we can see is real prices increasing roundabout every commodity that we're buying in every service at the moment, and the reasons for that are fairly obvious. Fuel prices feed into everything that we buy as well.
We, as you know, we have worked with the regulator as well to create an index, so this is not something that we bake in as an ex-ante allowance.
What we're trying to do is work constructively with the regulator, round about the area of real price effects to make sure that we have an effective index, ultimately, that ensures that the outputs that we deliver for

our customers can continue to be delivered, that we can continue to realise that Net Zero ambition. Now, you touched on the non-load related programme.
We've submitted 130 engineering justification papers for that non-load related programme. Our programme delivers £812 million of monetized risk benefits for the customers through that programme measured by the regulator's methodology so that has real value in terms of building an asset base that's capable of dealing with the challenges that will be faced with in Net Zero as utilisation of the assets goes up, but we still need to continue to improve by 19%, as you saw, our quality of service and maintain resilience through the type of weather impacts that Jonathan outlined at the start.
So real price effects - it's something that will develop and we look forward to seeing what comes out of the regulatory machine, round about the draft determination in June, but it is an issue that all companies will be faced with that we've got to get an effective mechanism to deal with.

Bob Hull – Challenge Group
Sure, I mean - I think my question was, you know, why is yours higher than anybody else?

Scott Mathieson – SPEN
Well, again, you know, you ask a group of economists who are well qualified to answer this a range of questions and you'll get a range of different numbers.
The key thing that we're pushing for in the area of real price effects is that we are fair to our customers that we do get something that doesn't inhibit the company's plans to get on and deliver for the customer.

Bob Hull – Challenge Group
OK, I mean - I'm sure this is an area that will be explored, sort of, in detail – I'd just sort of highlight that, you know, it is a higher bid than others.

Frank Mitchell – SPEN
So, just to add to the guys on - and I think the point has been already made - this is a discussion about having an index of the price effects. We will have that debate in an open and transparent way with the regulator and try – and that will be a position that will come - emerge through. I guess what I'm trying to also maybe suggest and also - and again Ofgem can look at this – that on a like for like basis, on a true expenditure – ED1 to ED2 expenditure, like for like, because of driving our unit cost efficiency we're actually driving - the like for like costs down through ED2 and I think that's an important factor in here, as well.

Bob Hull – Challenge Group
Yeah, I mean - I guess just looking at it, you know, it's showing quite a significant increase, both in terms of the volumes that - that you've identified that clearly customers are having to pay for that, so I'm sure this will be an area that will be investigated further. Perhaps if I could just turn on to a different topic -

Jonathan Brearley – Ofgem
Bob, I think Akshay has a supplementary question.

Akshay Kaul – Ofgem
You asserted that your unit costs are going down between ED1 and ED2 and I think that's the difficulty that stakeholders have when they look at your plan, is both the unit prices as well as the quantity of activities changing between the two periods and so it becomes quite difficult to compare. Now, obviously Ofgem will do the normalizations when we do the comparative benchmarking between you and the other DNOs.

But have you actually done the analysis for yourself? Comparing yourself in ED1 and yourself in ED2 - when you normalise for the change in activity, what is the change in unit costs? How much more efficient are you planning to be?

Frank Mitchell – SPEN
Well, actually I'll pass on with the guys and go through it but, of course, we've done that analysis, and equally, we've also compared ourselves in the - with those companies who would do data sharing on our unit costs and I can confidently say we're leading on unit cost efficiency into ED2.

Akshay Kaul – Ofgem
Right, because I think what we what we're seeing is that you guys are being very, very unambitious on the ongoing productivity targets – they're amongst the lowest in the industry, and you're being pretty, you know, conservative as far as real price effects are concerned which is what Bob was probing. What is the - what is the comparison, numerically?

Frank Mitchell – SPEN
Well, Akshay, I will ask the guys to go to that, but let's go back to the point you just said there, and I've heard this debate a couple of times now, so I think the point about the comparative efficiency and the baseline I heard people, you know, the team in Ofgem will do the analysis, I'm confident that when the rubber hits the road, our unit cost delivery level will be one of the most efficient, if not the most efficient company out there.
So we have a very efficient baseline to start with and we are driving that cost down through ED2 and I'm confident when you do the comparison through your modelling and Ofgem, you'll demonstrate and see for yourself that we are actually leading on the efficiency front in that area, but why don't I ask Iain and Scott to comment on the specific question you asked.

Scott Mathieson - SPEN
OK, if I can come in here, Frank - thank you. So, Akshay, we've done exactly what you've asserted – so, one of the first things that we've done is made sure that we do the benchmarking. So, we've been working with your team and I'm sure that Steve would be able to testify to that fact, as well, to be able to understand how you will do the top down and bottom up benchmarking so we replicated that on the basis of ED1 and ED2 before we established a baseline cost, because ultimately efficiency is a measure of two items - the unit costs that you establish in your baseline plus the ongoing efficiency factor.
Overall, we can see that we rank in the upper decile, upper quartile in terms of efficiency. Unfortunately, not all of the companies were willing to participate in that, and you know - you'll know who those were as well, but based on the benchmarking approach that you're adopting, we can see that we're right-

Akshay Kaul – Ofgem
But I'm not - I'm not querying the comparative benchmarking. If you can, just if you could just focus on your own performance ED1 to ED2, what is your improvement in efficiency?

Scott Mathieson – SPEN
So in ED1 to ED2 – so, in ED1 and I heard this mentioned, for example, yesterday, you'll know the SP Distribution was rated as the most efficient company in ED1, in terms of its unit cost it's at top, after the smart grid adjustment, it became second, so it's still upper decile in terms of performance. So, as we enter those prices - and SPD and SP Manweb unit costs are exactly aligned - so as we enter into and during ED1

and enter into ED2, we are amongst the most efficient if not the most efficient operator in terms of unit costs.
Most of our increases are directly related to changing the volume of activity - you ask the question, so we have tasked our business plan by a further five - between ongoing efficiency and baseline tasks that we've built into a plan - over a half billion pounds worth of efficiencies have been put into that plan.
That equates to a 17.5% reduction in costs for unit costs between ED2 and ED1, which is equivalent to an ongoing efficiency rate, when you take the baseline challenge plus ongoing efficiency, of between 3.3 and 3.5% per annum.
Now, the big distinction about our business and our particular business model is that we take the risk of those reductions right up front and bake them into baseline. So, 86% of that efficiency is delivered from day one in the next price control.

Jonathan Brearley – Ofgem
OK, I'm going to hand back to Bob now for the next part of the Challenge Group's questions.

Bob Hull – Challenge Group
OK, thank you. If I could focus now on DSO and DSO bid for ED2 - it shows quite a significant increase in cost and resources and that the step change is the highest of all the companies.
What your submission shows is that costs increase from £2 million to over £30 million between 2023 and 2024 and staffing increase from 20 to 150 people.
Looking at the benefits from the DSO, you identify, as you mentioned earlier, savings of £370 million, but the these are over 45 years and there's only £9million from flexibility services shown over that 45 year period.
Your DSO costs over ED2 are about £185 million, so I suppose I have, sort of, two questions really - you know, how does this represent value for money, and indeed, is it possible to deliver this step change in a single year?
And secondly, why are your flexibility savings not more ambitious?

Frank Mitchell – SPEN
So, before I pass onto the guys, Bob, so I think - I think a couple of comments here is the DSO is really a key factor in our business plan and actually we're having to really set that up and get that in place, so there are a lot of setup costs in what we're trying to do there to get this enabled.
I've been at the forefront of trying to drive a DSO model across not just the UK but in Europe to make sure we recognise the benefits of a DSO model widely, in my time in Europe, lobbied heavily for the DSO role to be recognised and we were first to come up with a strategy in DSO. So, we really believe that DSO model can deliver lots of value for consumers and that's why we were confidently predicting £370 million with an additional £0.5 to £1.6 billion of further indirect benefits available from what the DSO will create.
But let me pass over to Scott to talk a bit more about the DSO.

Scott Mathieson – SPEN
Yeah, you know, again, I think we've got to lay out the architecture for the DSO to make sure we maximise the benefits and we have been prudent in terms of the forecasts that we would make.
Remember that the DSO is about removing constraints, for example, for the system for which we don't have the budget for or don't have the cost to show the full benefits.
So actually, what we think flexibility will deliver is between £36million and £145 million in terms of benefits over the course of the period.

There are other things that is unlocked from our approach to digitalisation with the DSO as well that deliver other benefits that we have not counted within the £370million as well, Bob.
So for example, one of the things that we want to do is speed up the transaction between people trying to apply to get low carbon technology onto the grid, so fundamentally change our connections application process and digitalise it. Now, if we look at what we are proposing there within the architecture for the operating telecoms and the digitalisation of our transactions processes, we will see another £15 million per annum, £75 million over the period from that digitalisation process, so whilst the £370 million we've attributed to the DSO, as - is part of the equation, it's not all of the benefits that actually unlocking the DSO will deliver. Again, you heard Iain outline that on our approach to flexibility we have tendered during this price control period, but planning ahead for ED2 to execute flexibility, 1500 megawatts of flexibility tenders. Now the market's got to be there to deliver that. We successfully executed and contracted with about 550 megawatts of that.
Now, I would like to see that increase over the period, but the market's got to be there and it's also got to deliver good value, so what we see in terms of the company plans in terms of flexibility as well, is that you see a range of prices, in terms of the flexibility cost of about £14 per kilowatt, which we are achieving on behalf of our customers, up to as much as £190 a kilowatt from flexibility, so flexibility has got to be delivered, but not at any cost.
It's got to be real benefit to the end customer connected to our grid and our system. Otherwise you'll see further inflation in the use of system charges.

Bob Hull – Challenge Group
So, I appreciate the benefits of flexibility and, you know, and very much welcome the efforts that you're making, but you know, I just refer to your plan where in, you know, Annex 4A3 you set out that flexibility benefits are going to be £9 million over 45 years according to your assessment.
I mean, it seems to me you're sort of saying that you've been conservative with your forecasts. I mean, does this mean that you're going to revise your DSO bid?

Scott Mathieson – SPEN
What we're saying is that we haven't sought to inflate the projections or the benefits that we will deliver. We've sought to be realistic as to what we think that is, because ultimately, we are absolutely conscious that the customer is both paying for flexibility as well as reinforcement. The deal that we strike and the unit cost that we strike has got to be efficient for the end customer.

Bob Hull – Challenge Group
So just to process from another direction, one thing that you mentioned earlier was that you're going to see a demand increase by 2028, you know, which clearly is going to happen if LCT comes along, but that peak demand is still not going to be any higher, according to your forecast, than it was in 2012. So, don't you already have this headroom in your system and, you know, is the DSO really going to deliver anything that isn't currently available?

Scott Mathieson – SPEN
There's a couple of remarks that we're making in respects of that, and again, I know that you will have researched this extensively, we've worked together in the past, but you'll be aware that there is a fundamental difference between the level of renewables penetration between DNOs across the UK. There are only two groups of companies where the level of embedded generation is above 80% of peak demand - SP Energy Networks and Northern Powergrid, about 85% embedded generation peak demand.

Most of the other companies, for example the company down in in the South of England that you're probably closest to, is sitting about 52% up in terms of embedded generation, so we start from fundamentally different positions in terms of the challenges that the grids have got.
We have a much higher level of penetration of embedded generation locally.
I would also - it would be wonderful if we lived in a world where the demand that we're forecasting turned up in the areas that we have that capacity. So, whilst we've seen reductions in absolute demand on the network, as you correctly say over the last period, what we don't see on key nodes of the network is a fundamental change in that peak demand.
So, the areas that we are seeking to reinforce or buy flexibility for are those areas where the peak demand is already close to being exceeded.
So we've tried to, you know, again, Iain's point shouldn't be lost on anyone - 48 billion of permutations across our grid from EHV all the way down to the LV network to make sure that we understood where we would have the headroom on the network to release that capacity to customers and ideally incentivize them to come there or where we would need to act, either through flexibility or indeed through, ultimately, a reinforcement, if that was the last Plan B that we had to go to.

Bob hull – Challenge Group
I mean, I think we also share the goal of, you know, achieving this. I think my questions are sort of more targeted about - how is your plan going to deliver that? And you know, I'm sure that will be ongoing debate between yourselves and Ofgem, but thank you for your answers to my questions. Thank you.

Jonathan Brearley – Ofgem
Thanks, Bob. We're now going to move over to the Customer Engagement Group and John Howard.

John Howard – Customer Engagement Group
Thanks very much indeed, Jonathan. I'm going to carry on with some of that because I want to talk about ongoing efficiency.
But just to say at the outset that the overall view of the CEG is that SPEN's produced a final business plan that reflects the needs and preferences of consumers and other stakeholders as drawn from the research that it undertook, but just coming back to this issue of ongoing efficiency.
You've used the NERA economic consulting firm figures to pitch your ongoing efficiency commitment to half a percent, which is at the upper end of the range, but the Competition and Markets Authority's assumed ongoing efficiency of 1% per annum in its recent determination of the water price controls and didn't overturn Ofgem's position at 1% in the RIIO T2 appeals that were made. So why not fess up?
It's going to be tough out there for consumers. Let's have ongoing efficiency at 1%. Why can't you say that?

Frank Mitchell – SPEN
So, John, let me respond, first of all, and then I'll open up to Scott and Iain to come back to specifics.
So, I don't think anybody can say we don't recognise the pressures consumers are under – customers are under. We live with communities that are some of the most disadvantaged in the UK and their vulnerability has always been the heart of our business - something that's in our DNA, we recognise the need to respond to that properly, and that's why indeed we're taking the efficiencies up front.
We're putting them in from year one, not through the course of ED2 and then further extrapolating them through ED2, so we believe we're delivering those benefits earlier than anybody else through the phases we've got. Then, of course, you've heard the technical debate with Akshay and others, but how do we

actually understand that? And that will come through, I'm sure, through analysis that Ofgem will do and challenges on that.
But we are confident we can demonstrate that efficiency through the benchmarking process and indeed, delivering that much earlier than any other company by baking it in up front to make sure that those customers get that from beginning of ED2, not the end of ED2. So I don't know whether Scott or Iain wants to comment further on that.

Scott Mathieson – SPEN
Yeah, I mean, that's the core point, is that, you know, in most normal businesses and where you've got an economic forecast, the ongoing efficiency is kind of based on the last year of reported costs, John.
But what we've done is effectively take those ED1 costs and task them by 15% and then applied over and above that, another 2.5%. So if you look across the five year period, that's stretching the cost base in ED1 on a unit cost basis by 17.5% and I can talk about where some of those efficiencies came from in a moment.
That's equivalent to a 3.3% - to the number that you're quoting, the 1.1% whatever we want to quote, but effectively saying the overall level of efficiency we've built into our plan is 3 times that level of efficiency. This is one of the difficult abstracts of - that you get when you look at the way that the price control is built up in comparison to normal commercial businesses.

John Howard – Customer Engagement Group
OK right, well - I want to go on another point I want to talk about as well, so I'll let Ofgem mull that in more detail with you in future sessions, no doubt.
Can I just say that, you know, some of the aspects of your plan we were really quite supportive of -bills in the SPD licence area, they're going to reduce over the period and only increased marginally in in the SPM area, which is good news for customers. Customer service under ED1 - relatively high already, but you're going to make some marginal improvements on that in ED2 - you get this effect of less return the more you spend as you get more and more effective so we were happy that that was the position you took.
The proposals for vulnerable customers were good, we thought, but how will they stand up, those proposals to the cost-of-living challenges that we'll be facing? We'll come on to that a little bit later I'm sure.
I wanted to talk about networks meeting Net Zero at lowest cost to customers. Well, we looked at that in one aspect, but the other aspect of this, of course, is that customers want to ensure that companies don't simply install new wires and bits of kit to overcome a lack of capacity in the system but to maximise efficiency, use flexibility solutions, the latest technology to get more out of the system that exists at present.
Now, in your business plan, you say 'our load investment plan is built in on an industry-leading modelling tool which impartially analyses and sequences all viable technical and non-technical solutions to create bespoke intervention plans for every restraint up to 2050' and that's all very laudable, but I'm going to question the words you've used there. You're saying it's impartially analysing and sequencing all viable solutions, how is it impartial? How you're going to prove it? Will it be independently verified?

Frank Mitchell – SPEN
So thanks, John. So, I guess this goes to the heart of the DSO model and how we verify that this has been done in a way that's both independent and transparent and in our business plan we laid out how that should be done through a - through a separate directorate with, ultimately, a quasi-board stakeholder group managing that directorate to make sure that the transparency and visibility of what's going on there is apparent to everybody out there, and to make sure that is done in a way that is properly tested through

the - through that route as well, to make sure that it's not just done by that independent directorate, but it's actually tested by that independent group of stakeholders.
But perhaps Scott may be able to comment further on that.

Scott Mathieson – SPEN
Yeah, absolutely. So, you know a key aspect is making sure that we've got that independent oversight, and Frank's touched on the governance, but I also want to come back to, you know, the question round about the Net Zero platform. So ultimately, we're fortunate in the world that we work in is determined by the laws of physics and not the laws of economics. So every - the model that we have provided, we've worked on with the University of Strathclyde, we've worked with the Power Networks Demonstration Centre, independent parties to build up a model that modelled customer assets, particularly in the Low Voltage network and actually what would be going on with different power flows, different circumstances, so the model is empirical and externally audited.
We have - we have consulted with - we've used that model also to consult with 34 out of 39 local authorities, and the only reason we didn't – hadn't managed to get the full 39 was 5 local authorities didn't have the resource to engage with us at that point in time.
We've extensively rolled it out across our stakeholder process and tested and I think you and the Consumer Engagement Group, John, have also been seen with it, and in fact we get quite, again - we get quite anorak about it, but actually this is a science-based, bottom-up approach that isn't subjective but is modelled, engineering, empirical data that also can be taken to any governance body and tested for its accuracy and veracity and one of the key points that we want to make sure - as well as being focused on flexibility - is that we manage a safe and secure transition for our domestic customers as they begin to increase the load on the services, the cut outs, the assets that they depend on in their homes, we want to make sure that's a safe transition.
And we've tried to extend that into other partnerships and other innovations schemes, so, for example, we have a trial at the moment - looking at moving demand with Octopus Energy. So Octopus bring the commercial, the retail skill, the background - we bring the engineering skill and we're looking at moving peak demand round about on the network and one of the ways that we've been able to model that exercise - that's across 9000 domestic customers - we've been able to model that exercise used - we're using data from that to hopefully improve the data accuracy on the Net Zero platform models as well. That's a bit of ongoing, enduring process.

John Howard – Customer Engagement Group
OK, so you've got a model that's externally audited, you're saying, and you've got this independent governance group who will be monitoring it as well. Will you allow that independent governance group to publish a report on what its assessments have been?

Scott Mathieson – SPEN
Absolutely, and, you know, at the moment we also - I think it's really important that we highlight every year, we provide a long-term development statement with significant volumes of data into the public domain and we use that as a basis to consult with stakeholders externally and to be challenged by electrically - electrical experts as well as stakeholders generally looking to utilise the grid. What we're looking to do in some of the digitalisation proposals is make that, rather than an annual exercise, a monthly exercise, and where those datasets also become available to those third parties that are looking to use them and model their own outcomes.

John Howard – Customer Engagement Group

OK, good thank you all very much. I better stop there - been going on a bit!

Jonathan Brearley – Ofgem
Right, I'll just open up to John Crackett, the Ofgem NED and there's a couple of questions myself and Akshay have as well.
I suggest we keep our answers short and punchy, guys, just to make sure we can get through them. So, John.

John Crackett – Ofgem
I just wanted to return back to this question of the asset replacement spend and I get the fact that, you know, Scott, that you've got an ageing asset base, you know, join the club, but that wouldn't necessarily mean that in a constant distribution of asset ages that that would be a justification for increasing asset replacement cost.
So your asset replacement costs in ED1 were the biggest single component - I think, about £800 million you've spent, but you didn't spend all your allowance and you're proposing not only to spend more- 20% more – in ED2, so one would have thought initially that with a mature asset base, well invested over time, that the spend would start off being pretty much a constant run rate with inflationary pressures perhaps balanced by innovation and efficiency, and yet you're proposing that's going to go up by nearly 20%.

Scott Mathieson - SPEN
So, thanks, John, and I'll probably bring Iain into some of this as well. So, first and foremost, if you were managing your assets purely on age profile, you might be absolutely right, but we've tried to move away from models that are solely dependent on age profile modelling, and make sure that we have real condition data across our assets.
Probably one of the strongest, you know, the strongest accolades I can get was that Ofgem have extensively audited our asset base, actually visited our sites to make sure that our end interventions were both appropriate and accurate and we were very proud in 2019 that we were given a ringing endorsement by the auditors at both transmission and distribution, and we’ve a joined philosophy with respect to asset management, so one of the things we've tried to do is move it away from heuristics and engineering judgement and bring it into condition data - understand the duty of the asset, understand the context of the asset and make sure that we were addressing the real objectives and the real risk that's out there.
So, I would also say that we have delivered 100% of our outputs for 12% less during ED1, that's the forecast to the end of the price control period and the efficiencies that were delivered in a non-load related programme, through both innovation and reduced unit costs have been built into a non-load related programme for ED2. So, although we're proposing on a 5 year basis, obviously we're not comparing like for like 8 years – it’s five years to spend £356 million specifically on asset issues. Actually, we - that is - also incorporates £87 million of efficiencies from our ED1 experience.
And again, I would emphasise that, you know, for public scrutiny - for the regulator scrutiny, we’ve 130 engineering justification papers where we lay out the asset data, the reason, the benefit - and on Ofgem’s measures - and again we're trying to remove the subjectivity about this and get a science-based approach to asset management- the investment programme delivers £812 million of monetized risk benefits for the customer, so the measure is there.
The key thing that we think is vitally important is the point that Iain made - we don't dodge, we don't defer when we make a contract with the customer, we deliver against that. What you don't see is some of the massive outperformances you'll see in other operators in our business, we see sensible efficiency and the real outputs delivered.

We didn't avoid our modernisation. We delivered 100% of that modernization and we extended the efficiency through refurbishment, recycled that investment.

John Crackett – Ofgem
Thank you, Scott.

Jonathan Brearley – Ofgem
OK, I'm going to ask a question then I'm going to hand over to Akshay, he may have some follow up. I just wanted to come back up to the DSO actually.
So, you said up front - I think, Scott, you said or Iain, you said that, you know, you want to take this whole system approach and you're going to take into account wider vectors across your local economies. Can you just explain how's that going to work?
Just bring that to life for us. What does that practically mean?

Iain Divers – SPEN
Sure, so you're quite right, Jonathan, those - so we built on our successes in ED1 so we've done lots of collaborations with all the utilities, for example, and, of course, our local authorities and regional governments as well, so we know there's a lot of aspects to this and we do want to take it forward in ED2, so practically what we're going to do is set that dedicated team so that we have new memorandums of understanding, new collaborations such as with the Energy Systems Catapult to actually explore new avenues and opportunities, such as, for example - take Liverpool City region for example, we're working in detail with them to understand what their plans are for Net Zero at the local level and that uses the likes of our Net Zero model that supports a load plan.
We're getting down into the individual domestic property level, and so they reflect on us, for an example - we might look at hotspots in the network and constraints and issues that might cause for us, but they're equally interested in what cold spots on the network mean for them - does that mean they have to do some sort of intervention, perhaps in social intervention, housing stock intervention? And that's the sort of collaboration that we're looking to do more of in ED2 and it's actually getting down to that low level of detail which requires a dedicated team, requires that broader focus.
I should bring this all together and as you say, actually making it real and feeding it into our network interventions as well, those sort of strategic interventions and actually policy interventions as well that might tap into vulnerability, for example, as well - so we know there's a lot of aspects to this and that's why we need to make sure that we're kind of broadening our reach, broadening our engagement, and seeing what else that we can deliver.

Jonathan Brearley – Ofgem
So that's great, Iain, and I think you recognise that the issues that the local network is involved with, particularly for electricity and the trade-offs are broader and, you know, you will need to be both advisors and actors and indeed, you know, when - to sort of re-express what you're saying - when you're thinking about the network you build, you're thinking about the efficiency of the whole system, not just of the wire versus the battery on your network.
I guess, then, I come back to the questions that were asked before about governance of this function, because those are some quite big economic trade-offs you're making there.
Do you really think that a stakeholder board is going to have the technical power, the authority and the influence over that team to make sure, just for your customers, that this is being done in the wider public interest and I'm not making any inference about you as a company, but clearly if that is a worry that people will have as you get involved in these much more strategic economic decisions?

Frank Mitchell – SPEN
So, Jonathan, yes is the short answer. We wouldn't say that we didn't think that was the case. That's exactly what we're going to do and make sure that it's transparent and we have the right stakeholder group to challenge that and make sure we have the right set up to make sure that they have that ability to influence, so it's exactly what we're wanting to do.

Jonathan Brearley – Ofgem
So, you know other companies have gone further. So, for example, we've seen companies have gone for the legal separation - did you consider that and why did you - why did you land on this model, which is a separate team reporting to, I assume to you, Frank, with a stakeholder board and some auditing of your modelling.

Frank Mitchell – SPEN
So, Jonathan, let me comment on that. So, first of all, I don't think we're misaligned in the outcome, eventually - I think the outcome is – the difference between us is timing, but I did - I did laugh, to be honest, when I heard that the one company hasn't shared this business plan and didn't do any data sharing with professing the benefits of transparency.
So I'll put that to one side – we've got a track record of transparency in this business and have a track record of being fully open to everybody out there about what we're doing and actually putting our system out there to make sure people can get access to that, so I'm not going to be hopefully criticised for not being transparent and we will build upon that going forward.
So, I think, my worry about going too far too soon, and I think I wrote to you, Jonathan, before in the past, to say that I can see this outcome. I just don't think now is the time to do it because I think it's still an evolving beast and I'm worried that if we create some legal responsibilities too early at it, it could create some unintended consequences and that's my worry with it. This is an evolving animal that we need to get settled down and put them in place and make sure we really understand the enduring model and what that means as far as legal responsibilities and then at that point, I think we'll be ready to move to that state.
So, my issue isn't, Jonathan, the eventual way we'll go in this, my issue is really about the timing of it and giving it time to settle down and make sure that collectively across the industry, we understand exactly what it's going to be doing.

Jonathan Brearley – Ofgem
That's helpful, Frank, thank you and just one more follow up. I just wanted to put in your mind the counter-worry that if you build this function in an integrative way, we have to unpick a lot of stuff later on and you may want to comment on that now, but that's certainly been our experience where we've tried to do this elsewhere, as I think you know.

Frank Mitchell – SPEN
Well, I guess we're going to go into differences whether we think about full separation etc and the benefits of that and again, you know at the end of the day, it depends what - how far we go into full separation at some point in the future, Jonathan, and what that means for the setup costs of that. And that I think we may need to make sure we don't create something that isn't - doesn't have functionality at the far end, but depending where that goes, there will ultimately be some costs involved in it, depending how far we go, but that's not - we're not trying to build it into a position, it means that optionality disappears because as

I've said to you in writing before, I believe this is an outcome that eventually - get there, just a matter of timing, from my point of view.

Jonathan Brearley – Ofgem
Listen, thank you, Frank. That's really helpful, over to Akshay.

Akshay Kaul – Ofgem
Frank - Jonathan mentioned in his opening remarks, you know, two important events that occurred after you submitted your spending plan. The first being Arwen and then a series of storms that came after that with very long power cuts for a lot of customers, and the second has been the Ukraine war, and I just wanted to tackle in turn, you know, how that has changed your thinking on your spending plan? So first of all, what are you now planning to spend on storm resilience in the ED2 period and what specific improvements can you promise customers as a result of that spending? And secondly, what is your thinking now, on what is almost certainly going to be a bigger drive towards a cleaner energy locally and a much bigger role for the demand side response in terms of your connection service, how are you going to cope with connecting people as quickly as possible as the demand starts to ramp up on that front?

Frank Mitchell – SPEN
Thanks, Akshay. So, let me take each one in turn.
So, I think in Storm Arwen, I think just to put a bit of context for those on the call -so 95% of the customers we have connected to our network were unaffected by Storm Arwen, which was a significant 51/50 year storm that hit the East Coast, came down the West Coast right down through our Manweb area and, in fact, went right down as far as WPD and we recognise in that the customers that were impacted were impacted severely, not just by electricity, by a lot of infrastructure that was damaged out there, roads in particular, and other aspects out there.
There we had 88% of those customers on - that were impacted - on in 24 hours and 96% on in 48 hours. We still left about 8000 customers - broadly 4000 north and 4000 south.
We had the 4000 in the South and the Manweb area on by the Wednesday morning and the co-located DNO - they were off for much more significantly than our customers in the Manweb area, they were on the Wednesday morning. The co-located in the same geography, were off much longer than that.
In our Scotland area it took us until the Thursday evening into early hours of Friday morning to get the last customer on.
Now, that's unacceptable but equally, well, in the co-located DNOs either side of us - again, it took much longer for those to get connected.
That's because, as we said earlier on, we've been investing heavily in our overhead line, particularly on a risk based - risk basis and actually our main lines were unaffected in and - through that storm which we were - allowed us to have less customers impacted and ultimately get those on in the same geographies much quicker than other DNOs.
But we recognise there is more to do. We recognise we want to go further and we're looking at areas to - particular areas to do with other parts of the network that, ultimately, up until now, haven't been economically viable to do reinforcement on, and indeed also going further north, tree cutting in areas where we can do further tree cutting, which we would typically do on a safety reason but not in a resilience reason, going on and set up so we see that-

Akshay Kaul – Ofgem
So, what - the question was - what are you now planning to spend on storm resilience, and what specific improvements can customers expect?

Frank Mitchell – Ofgem
So, let's go ahead and hand over to Scott to just a comment on those specifically and I'll come back to you on the other question.

Scott Mathieson – SPEN
OK and thanks for that question. So, the - one of the core things which is important - I'm sorry to go back to Arwen - was that during Arwen, Akshay, we didn't lose a main line at 33 KV or 11KV and the reason that we didn't lose a main line on the network was because we have a targeted and focused resilience investment programme.
So, we have an asset policy where we map out the weather corridors that are worst affected - so living in the northern, western and eastern part of Britain you're a bit more used to storms that frequently, every year, come through this network and it's worth reminding ourselves that since Arwen we've had another six major events where the performance, I think you would all agree, has been very strong.
We've a targeted resilience strategy, which we've continued into ED2 and again, as Iain outset, it's beyond resilience into quality of service as well, so we've adopted a strategy and John asked the question and Bob asked the question about the reason that we're spending more on non-load related programme. So, there are good environmental reasons, like we're removing PCBs from secondary transformers, but there are also very, very good resilience reasons that we are extending and continuing a proven strategy with respect to our overhead line network and increasing that resilience.
I think one of the things that we strove to do after Arwen was think about the rural communities who were worst affected, in particular.
So, one of the first moves that we did - that Frank did - was actually to commission a report with the local communities, the local authorities that serve those areas and the resilience fora to see what their thoughts were on how we could serve them better. Remember that very - the worst, certainly within our own network's experience - the parts that were worst affected in Arwen are the rural spurs, where typically you will have less than 500 customers, less than a megawatt of demand.
Now, as we look towards a low carbon future where those people will be involved in electric vehicles and potentially electric heat systems, we need to think closely about those communities.
So, do we extend that strategy further? So, one of the areas I think that we need to have an ongoing dialogue with you about, is do we - how do we extend resilience down into those rural communities and rural spurs where demand and customer numbers are relatively low.

Jonathan Brearley – Ofgem
OK, I think we're going to we're hand now-

Frank Mitchell – SPEN
Do you want me to comment on the – on Akshay's other question, Jonathan?

Jonathan Brearley – Ofgem
Yes, please, but in a in a punchy way, please, Frank.

Frank Mitchell – SPEN
OK, well in simple terms, I think the right answer to counter to the price that we've got is to actually accelerate what we need to do to get Net Zero - I believe that's ultimately what we've got to get through to make sure that the customers in the UK have both got energy security and also we start to affect the price issues that are out there that have been driven by a global market.

So we're very minded to that and actually, what we're looking at both on a front of - actually the front end digitalising a lot more and that will make that a lot slicker.
But also really at the point of actually making that happen, looking at all the tools we have got to try and get that in quickly through flexibility, through other technology we're putting out there to make that happen, much quicker people on but we have to do work where we're right now taking on this year, 300 apprentices and graduates this year because we're very minded to the future and what we're going to do to make sure we can ramp up and bring young people into our organisation, what we think's going to be, and it's early to look. Loads of people are already looking three or four years out to accelerate what we have to do, so very much aware of it and we're looking to make sure we can have the ability to scale up, actually, but it's something that's at the heart of what our thinking is.

Jonathan Brearley – Ofgem
Thanks, Frank. I'm now going to hand over to Steve McMahon, who is going to take us through stakeholder questions.

Steve McMahon – Ofgem
Yeah, we've not got a huge amount of time, but hopefully if we're punchy with the questions and equally punchy with the answers then I think we can fit a couple and so I think we're going to go to Hywel Lloyd first - just around strategic optimizers and co-creation of local plans, we'll pick it up in the DSO themes.

Hywel Lloyd – Facilitating the Future
The question's essentially - the strategic optimisers look good, interesting, you've recognised the importance of the role of local government in a, sort of, forward strategy.
So, where are these people going to sit? Because if they become, sort of, super connection managers, that's not very strategic at all.
If they work for you, Frank or Iain or Scott, you'll know more about your own structure than I do, and that might be more interesting because it could then replicate what you appear to be learning in Liverpool, so perhaps you could explain that a bit further and then - and how it might look, picking up on Karen's question, by 2024, how will you know that they are doing a very good job?
Thank you.

Frank Mitchell – SPEN
OK thanks. Well, listen - just on, first of all, the relationship with the local authorities, it may be because we've not really brought Kendal in to the discussion yet to talk about her ongoing relationship with local authorities and how we manage that. So, maybe Kendal, it's worth you, maybe, commenting on that then we can come back to the specifics.

Kendal Morris – SPEN
Yeah, so obviously we've -we do a lot of engagement with the local authorities and we've engaged heavily with them as part of our plan to develop the services that - we're taking forward, so local authorities have been really engaged in everything that we've developed up to now, in the plan.

Hywel Lloyd – Facilitating the Future
So, where will your strategic optimisers sit? Because you know, I've looked at all the DNOs and all their local engagement plans with local authorities - you're not the best in terms of the evidence I've seen. Strategic optimisers could be really useful if they're strategic.

Scott Mathieson – SPEN
I think there's the - I guess the thing I would say is there's the opportunity. I guess we're going through the price control we haven't got final determination – draft determination - the important thing is, actually, the concept and the support that you're giving for it, so we think that an agnostic party who can be an impartial voice advising on the right choices, to minimise energy consumption and also protect the customer in terms of safety is key throughout this.
So, I'd be interested to pick up ideas as to how that should sit in the organisation, that's not a predetermined answer. It could sit reporting into, for example, the governance body that we highlighted to Jonathan earlier, that independent governance body and then draw upon that expertise as well. That would be another option for us.

Hywel Lloyd – Facilitating the Future
OK, I'm sure we'd be happy to help explore those.

Scott Mathieson – SPEN
To reach out after this? Ok, thank you.

Steve McMahon – Ofgem
Thank you and hopefully we can just follow up on that with Karen from UK 100 – have we got Karen?

Frank Mitchell – SPEN
It may be worth Iain commenting on what the strategic optimizer is for people who maybe are not familiar with it.

Iain Divers – SPEN
Yeah, absolutely. So just to add into that and absolutely, we'll pick up after this and where that sits.
So, 87% of our local authorities support this approach and we, as I mentioned, through the presentation, we see some of the gaps. We know that different local authorities have different capabilities as well, in terms of their specialisms, that's where we look at local area - local area energy planning. We look at local heat and energy efficiency planning, for example, and even transport decarbonisation planning. We know it's a - it's a significant step up.
It's certainly, you know, it certainly needs to be strategic, hence the name, and I think that's where we think there's the right leverage at the right levels and so that goes from the regional – national, regional government level to the local government level, making sure we can build understanding and help develop and can hand in hand those decarbonization plans and also share that learning as well, but we're absolutely looking to make sure we can leverage it and make it strategic as we possibly can, and make sure actually as I said at the outset, builds in our models and our data sets and just help build that momentum into that.

Steve McMahon – Ofgem
Thanks Iain, I think Karen's having trouble unmuting so I think that the key point in the question is that given the pace of change that we're seeing in the central role or local government where will SPEN be on strategic local governance engagement by mid-2024 and how you're going to be able to demonstrate that?

Frank Mitchell – SPEN
Well, I guess from my point of view, we've - engaging the local government, engaging with national government isn't new for us, we work closely with Scottish and Welsh governments, we work closely with all local authorities and hopefully they we will recognise and we will recognise the work that we're doing with them and to me the measure of that will be, ultimately - are we helping them deliver their ambitions and their plans at their pace locally and if we need to test that annually, to try and get that feedback, we'll be doing that.

Steve McMahon – Ofgem
OK, and I think just one – we had Andy Manning. I can see Andy's appearing as a guest - we might not be able to unmute him for some reason, but we'll try anyway. I don't know Andy, are you there, from Citizens Advice?

Andy Manning – Citizens Advice
Yeah, I'm here, can you hear me?
Excellent, thanks, Steve, and thanks all for this chance, so Net Zero, I think, clearly represents a huge opportunity for you to increase your regulated asset base and grow your business, and the risk is limited due to the uncertainty mechanisms we mentioned, that protects you and protect consumers. We also mentioned, earlier, indexing real price effects as a further protection. So, in light of that, how do you justify asking customers to fund a higher cost of capital compared to Ofgem's working assumptions on the basis of an increased risk?

Frank Mitchell – SPEN
OK, thanks Andy. So, obviously the cost of capital is a live debate. We used our own economic advisors to come up with an independent view of what that is, and that's what we put into our business plan.
I'm sure the ongoing discussion will happen, where that settles will be ongoing debate between the industry and Ofgem over the coming weeks and months, so it's an area where we've tried to use independent economic advisers to help give us the best sense of what that should be sitting at in the current context.

Andy Manning - Citizen's Advice
One short follow up - thanks for that - is - would you agree that with the use of indexation of RPEs and the uncertainty mechanisms, that's effectively de-risking ED2 compared to ED1?

Frank Mitchell – SPEN
Well, Andy, in one regard it might be, in another regard I'm seeing huge amount of risk in front of me and a huge amount of concern that I have about making sure that the ambitions of our local communities are met and we can actually make sure we bring Net Zero in a way that doesn't risk our security supply viability of our existing network.
So actually, I see ED2 much more riskier as a network company and what the implications are both financially and reputational-wise than I did see in ED1.

Andy Manning – Citizens Advice
OK thanks, Frank. As you say it's a live debate. Thanks.

Jonathan Brearley – Ofgem

Steve, can I just ask a supplementary, guys - on the cost of capital, how do you establish that your report is independent? And are you as confident in the independence of that report as you are in your DSO function?

Frank Mitchell - SPEN
So, I don't think they come together from your point of view - I think you're trying to put two things together so - we had the discussion in DSO and I'm happy to have a debate again with you, Jonathan, but I'm sure that if you asked economic consultant on it, they have their own reputation to stand behind, they're an organisation that's proud of their own independence and therefore it's a question for them. We certainly don't influence them, they come up with that view independently from us in the feed it into us.

Jonathan Brearley – Ofgem
I'd just make an observation, Frank, that all of the independent assessments seem to be skewed in one direction, in my experience of all the price controls I've been in.

Frank Mitchell – SPEN
Jonathan, I've been in lots of them myself.

Steve McMahon – Ofgem
Jonathan, I think we've got - there's a couple other questions - I'd suggest that they are more related to the second theme, so we can probably pick them up there if you want to just take a short break.

BREAK

Jonathan Brearley – Ofgem
OK, we're now going to crack on with the second session, which is around delivering world class services and ensuring no one is left behind. So first of all, I'm going to ask Sam from the Customer Engagement Group.

Sam Ghibaldan – Customer Engagement Group
Hi, thank you very much. From the start of this process, the CEG encouraged SPEN to focus on long term objectives, and in particular, Net Zero to ensure best value for customers.
With the Just Transition, though, it's essential that customers on low incomes who will be paying for the costs associated with the energy transition through their bills, need financial and practical support, such as the provision of technology to enable them to benefit from the Just Transition. So, we were pleased that SPEN took this seriously and worked with stakeholders on the creation of Just Transition principles and have committed to developing a Just Transition strategy during 2022.
They've also proposed a customer value proposition that will see 40,000 low income customers provided with demand reduction technology over the ED2 period and a long term target to deliver direct benefits of that nature to all fuel poor customers by 2045. Again, that's been a proposal that has been welcomed by the CEG, that long term approach.
But as we all know the energy world has changed greatly since the business plan was submitted in December, and many thousands of customers are now being plunged - additional customers - are now being plunged into fuel poverty.
And we know that customers like companies to do the right thing and SPEN have this commitment to developing the Just Transition strategy this year.

And the question - my question really is about the potential that offers to further develop practical support for low income customers and enable them to participate in the energy transition.
So with that, in that context, can SPEN set out how they will develop their Just Transition strategy and include customers, and particularly low income customers, in that process. And secondly, whether they intend that it will further increase the practical support that SPEN can provide for customers on low incomes.
Obviously, if we're doing that in the context of the current business plan, there's a challenge to find the resource to do that, but one option could be for example, to reinvest the CVP incentive payments into such support, so that's our - my first question, if you like.

Frank Mitchell – SPEN
Thanks Sam, thank you. Well, hopefully - and thank you for recognising we do take our vulnerable customers very seriously, so we appreciate that, we recognise with the CEG and something that we - hopefully it's in our DNA given the communities we serve.
Can I maybe start with the practicality issues before we go into the Just Transition plan and maybe given – I will come to Kendal later on because she wasn't on earlier on – maybe, Kendal can go back into some of the practicalities of what we're doing there and how we may extend them because one thing we do though is we don't do these in isolation – we work in partnership with a lot of others to try and get those practical help out there, and that's been recognised in a number of ways, through the years by others including a peer group and certain awards. But Kendal can tell - maybe can I ask you to comment some of the practicalities.

Kendal Morris – SPEN
Yeah, I think to start with, obviously we've worked closely, Sam, and we, you know, we talked at length about, you know, where our plan sits in terms of our long-term outcomes, and I think we've developed the plan to make sure that we know the direction that we're heading.
I think, we've got a strong starting point from ED1 with robust processes and the services that we've developed, particularly the technology, etc - we've tried to develop a plan where we're doing this most efficiently at a cost that customers have said that they can afford to do, that are acceptable to them, but was also affordable, and I think the values that we've projected in our plan to get that balance right – so, we're delivering a lot of value, but at the most efficient cost. We know to do that, we need to do that in a really collaborative way to bring organisations together so that - we can't deliver this all ourselves. If we look at the technology solutions that we've come up with, I think we've done that to save customers £100 a year, as a minimum, however, we recognise that actually if we get behavioural change on the back of that that we can go much further.
And I think that we need to be layering things on top of the solutions that we've put, so, in effect, what we've put in our plan is actually the baseline that we will deliver in terms of value and cost, but through innovation and through layering on behavioural change through our programme, we can go much further. You know, we've talked about a piece of technology that we will put into customers' homes to deliver a cost saving of £100 but equally it will come with an app that if the customer uses the app and there is behavioural change that it will go much further.
So, I think we need to be looking at that and we need to be layering on innovation because that - whilst we've put technologies in the plan at the moment, there are things that we don't even know exist and we need to be using innovation to pilot things and make sure that new technologies are coming through so that we get the maximum benefit for customers.

Frank Mitchell – SPEN

Thanks, Kendal – I don’t know if, Sam, you want to respond to that before we go to it.

Sam Ghibaldan – Customer Engagement Group
That helpful and I - you know, as you both stated, we appreciate that commitment and particularly the long term one but I suppose I'm looking for a little bit more detail about how that Just Transition strategy that you've committed to is going to be developed. And also, you know, given the extraordinary circumstances we're in, whether SPEN will be seeking to maybe reinvest some of its, sort of, incentive payments into additional support, because obviously, particularly, customers on low incomes are going to be really suffering over the next few years and the more that can be done urgently at the beginning, the better it will be.

Frank Mitchell – SPEN
Thanks, Sam, and I'll pass it over to Scott in a second, but we have a history of reinvesting our incentives to help these customers.
I'm sure that will continue in ED2, it is - undoubtedly the challenges is even, going - greater and that's also why we try to bake our efficiencies in upfront for ED2 to try and get that in early, but Scott, do you want to comment on the Just Transition strategy?

Scott Mathieson – SPEN
Yeah, I think you've touched on the core points. There's a couple of comments that I would add, so, Sam - you know that we've talked about - at length - about the Green Economy Fund, which, you know, there's no - there's no incentive payment from us to do that, but there is huge payback within the local communities, and one of the things that we set about doing is not only making sure that the communities that we serve in our business got access to heat and transport transformation, but we actually created jobs in those local communities. So, the way that we evaluated it with an independent panel again, who then recommended what we should be investing in, was we gave higher priority to vulnerable areas.
So, a project like Warmworks in Dumfries and Galloway that was targeting social housing got a much higher rating.
So, as you know, one of the things that we need to, - now, to do, as well as develop the strategy for how the CEG can continue to engage with us throughout the process of ED2 and one of the pivotal roles that I would see for you and the team is to help us - advise us exactly on how we can make sure we're really targeting the Just Transition - accelerating as much as we can at the start of the price control period, reinvesting those incentive payments and actually get the best possible advice as to, you know, we're not - we're certainly not a monopoly in that area as well.
We need to pull on the ideas that you've got, that you've contributed through the CEG, so I hope that gives you the assurance that you're looking for. But yeah, absolutely our intention to reinvest these incentive payments, make sure every pound is contributing a multiplier effect in the - in the Just Transition, not - it's not pound for pound. We've got to get more out of it.

Sam Ghibaldan – Customer Engagement Group
That's great, thank you. I mean the - suppose at this point in time, the commitment is what counts and I’m glad to hear you're willing, prepared and able to reinvest the incentive payments into that space and, you know, I'm sure Cadent and, no doubt, lots of other stakeholders, perhaps on this call, will be willing to help in any way they are able to do so, but it's clearly - the urgency of all of this, as everyone has observed, is ramping up and just to, sort of, slightly change the subject or significantly change the subject and this was touched on earlier on, so I'll be fairly brief.

Obviously, in all of the customer research that Kendal's team have done over several years now customers valuing reliability is one of their one of the absolute top priorities. And as previously discussed, the impact of storms has been increasing significantly over recent years.
Iain's slides showed the supposed - the improvement in performance between - I think it was 1998 and Storm Arwen last year, but the business plan promises that customers will be 19% less likely to experience a power cut and that the average duration will also reduce by 19%.
Following the recent storms and following what we have learned, even in the last four or five months since COP26 about, sort of, the increasing and worsening effects of climate change - do you still stand by that 19% figure? Is that still achievable?

Scott Mathieson – SPEN
Absolutely. So our reliability investment is targeted at delivering that, and I think it's important that we set out some context as well, because this came up in the CG report in terms of track record.
So, as we stand today as a business, if you look at our CI, we deliver 37 CI across both businesses. That's the measure for us as a whole. If you look at the two companies who earn over 60% of the rewards on the IIS mechanism at the moment, they are delivering CI that is 20% higher than our performance, so 44 or 45 CI versus our 37.
We have line by line, circuit by circuit – literally, line by line, to extend the metaphor, circuit by circuit, identified where we can deliver that 19% improvement through extending proven automation and by improving also our asset performance and resilience and extending that resilience, philosophy and strategy that are highlighted to join right through the network in a very, very targeted way. So, the 19% already comes off leading performance and also to pick up two other issues which are really important to the customer, is that we are leading in terms of short interruptions, so the IIS mechanism doesn't capture or report less than 3 minutes, so we've made sure that we continue to lead throughout that in ED2 period because that's still an interruption that our customer experiences and our CML is matching or when a customer does expend- does experience an interruption, we're ensuring that we address it in leading performance as well. So again we would stand by that and it - and we want to indeed extend it into those rural areas of the network.
We want an active dialogue and an uncertainty mechanism that we can work on with the Ofgem team to look at how we can extend that back into the rural communities that, at the moment, don't necessarily get all of those benefits.

Frank Mitchell – SPEN
Sam, if I could maybe just add a bit more to that – Jonathan, give us a few more minutes. I think it's a really important area and I think that hopefully our track record and what you've seen over time, that our long-term strategies to manage these storms are much, much more effective than they have in the past.
Now, although, for a very busy winter with the five or six major storms – Arwen was the one that caused the most issues. The rest of them were all buttoned up very quickly and actually, relative to other companies, even quicker.
But - and actually, Storm Arwen, one of the things that struck me when I visited the communities on the Monday, Tuesday, Wednesday, that were affected was the time of year - it was very cold and, actually, a lot of customers had spent their November salary on their Christmas food and put it in the freezer.
And that really resonated with me and I talked to stakeholders locally and that's why we came out voluntarily on the Thursday evening, we were putting the last customer on in Scotland, although - albeit Manweb had already been on the Wednesday - we decided to give every customer who was off for more than 48 hours, £150 discretionary payment to help cover the additional cost of that time of year, that they had experienced, to try and to help them.

We made sure and I think, well, hopefully we did this successfully that that money was in the bank before Christmas.
We could identify those customers and get that out quickly to make sure they could have that for Christmas to give back some of the issues that that caused at that same year for them we do take it very seriously, Sam, and I think, hopefully, you recognise our ongoing improvement in what we're trying to do.

Sam Ghibaldan – Customer Engagement Group
Thank you.
Well, that's reassuring that you're going to - you're going to continue to try and achieve that target in the face of obviously change - worsening climate, climate change impacts, and it's just - I suppose it's noticeable that both of these issues, in terms of Just Transition and reliability are effectively the top two priorities for customers in all of the research and both things that obviously have had their routing climate - have their route in climate change and it’s that long term perspective that we were really pleased to see you start to get into in this plan, which I think maybe was a- looking beyond the regulatory period and trying to think how the future changes and what needs to be done, which is reassuring to see, but obviously, it's going to require some very continued commitment and innovation and change, so I just urge you to keep on pushing as hard as you can in terms of - particular in terms of that Just Transition support.

Frank Mitchell – SPEN
Thank you, Sam.

Jonathan Brearley – Ofgem
Thank you, that was great and now over to Roger from the Challenge Group perspective.

Roger Witcomb – Challenge Group
Thanks very much, Jonathan. Good morning, everyone.
I was going to ask some questions about vulnerability - vulnerable customers following Storm Arwen.
I suspect, over the morning, you've answered most of them, so can I ask another related question? Really, it’s around our vulnerable customers. Incidentally, we thought your vulnerability strategy was pretty good and we don't hand out many compliments so -

Frank Mitchell – SPEN
We noticed that, Roger!

Roger Witcomb – Challenge Group
...so, you can take that one away - but you do - you do say that you're going to target 40,000 customers in vulnerable circumstances with information advice around low carbon technologies.
How have you determined that – that you, as a DNO, are best placed to deliver this type of support? Question one.
And the one that follows up is - beyond general stakeholder engagement, what have you done in the way of tests or trials to understand the value for money of this kind of intervention.

Frank Mitchell – SPEN
OK thanks - Kendal can I hand over to yourself on this one?

Kendal Morris – SPEN

Absolutely, so I think as part of our engagement with customers, they were really clear that they wanted us to play a role as a trusted organisation for advice, for practical help and for removing barriers.
And customers identified the barriers that they face as part of our engagement. That was really clear and that's shaped the services that we proposed. We feel that we're best placed to deliver these solutions and the technology solutions and wider vulnerable initiatives because a) we've got a unique view of the network, we understand customer vulnerability needs, but also that customers have told us that they want us to act as a trusted organisation to bring these services together.
Our plan will be delivered through a mixture of our own resources, commercial contracts and partnerships based on the best fit.
And also by developing some of the contracts and partnerships with technology providers that we've looked into and are in our plans, such as the one outlined for the disadvantaged customers where it will deliver £100 per year savings for customers - in turn, this will promote future domestic demand side response opportunities in the market.
Our technology proposals are tried and tested, certainly the one that we've based it on. There was a - there was a test, trialled in France of 100,000 customers.
It's been done at scale and there have been trials done in the UK with the same technology, but equally we recognised that whilst we've based our findings on that tried and tested technology, new technologies will come forward and we want to be flexible in our approach, so we don't want to limit ourselves and through innovation, we'll be identifying and piloting new technologies as they come through, but we will have a baseline expectation in terms of the value that they deliver.
As well as that, we recognise that we've got a place to bring services together and we've got a strong role to play in that regard but the most efficient way to do that is through collaborative working with other organisations so that we can all pool our resources under one governance structure, so that no matter where the customer enters that process, they get a really simple service, but they get high quality wrap around support, with the customer at the centre of it looking at what all of the organisations can do for them and what technology can be deployed.
And that's - our commitment to develop the coalition of partners is what that aims to do, so I think that's a real step change for us and it gives us a really strong platform to build on.

Roger Witcomb – Challenge Group
So, what you're saying is that you're - there is a collaboration, a network of organisations that provide this support which you are proposing to be the coordinator and manager and organiser of, rather than, shall we say, Citizens Advice or somebody else who you might immediately think of as being the organisation most likely - most able to look over the whole team.

Kendal Morris – SPEN
Yes, we see this as- we will be one of the parties that will bring services together, the services that are in our plan and other organisations that sign up to this will also bring their services together. We will develop a single platform as part of our digital solution and customers will be fed into that and all of those organisations will look at how we can best support that customer.
We will have it independently chaired, but we are bringing this together.

Roger Witcomb – Challenge Group
OK, and you have spoken - and you are in conversation with these other organisations?

Kendal Morris – SPEN
Absolutely, we're developing that at the moment. We've obviously got a partnership - a base of partners of over 70 partners at the moment, and we're building on that. So, some of those partners will be part of that coalition - there'll be new organisations that also join, but we think that that's the best way to deliver a wide range of support services to customers at the most efficient way, because at the moment there is a lot of duplication across organisations that we need to drive out.
So, we think that's a really effective way to give customers really broad support, and we see that at the moment, in the way that we do it, but it's on a much smaller scale and we see customers getting real financial benefits from these wrap-around services but in ED2 we want to do this on a much bigger scale.

Roger Witcomb – Challenge Group
OK, so you've seen the vacuum, as it were, at the top and you decided that you're the best people to fill it?

Kendal Morris – SPEN
And customers tell us that we're the best people to fill it because they want us to play that role.

Frank Mitchell – SPEN
And, Kendal – I'd perhaps also comment, the partners we've involved with are also asking us to help in this area as well.

Kendal Morris – SPEN
Absolutely.

Frank Mitchell – SPEN
-to help have that coordination role with them so it's done in partnership, not just because we've suggested that.
It's been done through a collaborative discussion with the partners as well.

Roger Witcomb – Challenge Group
Yeah, but someone's got to run it and you're saying it should be you?
Ok, I think that's my lot, actually. Jonathan, back to you.

Jonathan Brearley – Ofgem
OK, thank you Roger. I just want to announce that I've fallen off my chair when Roger gave someone a compliment - that does happen very rarely in this process, so having been in many, many, many of these with him, that's obviously a big tick. I'm going to now hand over to our non-exec Director John Crackett for any questions from Ofgem. Then I'll just follow up with one of my own.

John Crackett – Ofgem
Well, it was just a quick one, really, related to this proposition for the 400 - for the 40,000 which you say will save £100 a year, I take it you're referring to your CVP proposal, which is effectively a device behind the meter that turns the heating off for half an hour from time to time.
OK, so it's a bit of a techie question, but it seems like this is an odd thing for a DNO to do.
First of all, it's behind the meter where - much more the territory, I'd have thought, of commercial providers or indeed suppliers - but secondly, you know, it's not the first place I would go. I mean, I think I'd be looking more for, you know, networks - network solutions. For instance, some of your competitors are looking at voltage reductioners on feeders, tap changing, you know, that kind of thing. Now, why was it

that you ended up in this area which seems to be - it will be quite difficult to execute, you know, looking at experience we have of smart meters and customer engagement compared to things that are not quite so intrusive in the customer experience and in the home?

Kendal Morris – SPEN
Yeah – so, I guess this is one of the solutions, so I think the CVP that we've put forward is a level of benefit that we will save and the one that we've modelled it on is that particular solution, which as I say, has been heavily tested and modelled and piloted, and it - there's pilots going on in the UK, so we don't believe that it will be difficult to do, but we would place commercial contracts to do that particular solution.
However, we're equally looking at other solutions through innovation that will deliver the same savings in a different way, so we're not limiting ourselves, what we've committed to do is deliver a volume and a value of savings in whatever way is best to do that, and that will be - that will evolve over the ED2 period, because there are technologies that don't currently exist that might exist in a year.
So, the savings and benefits have been modelled on that particular technology, but we've absolutely not limited ourselves to that, and it sits part of a wider offering of 276,000 services of which that is, you know, is part of.

John Crackett – Ofgem
OK, thanks.

Jonathan Brearley – Ofgem
OK, just a supplementary question here from me - sort of accepting that the vulnerability plan seems to be of good quality and accepting these are good things to do - you as an organisation will get big reputational benefits from doing this sort of thing.
I guess the question is - why can't shareholders fund this rather than other customers, which as you know, ultimately leads this to being quite a regressive form of taxation.

Frank Mitchell – SPEN
OK, thanks, Jonathan – just before I handover back to Kendal - I guess that from our point of view, this is only part of what we do.
We already - and we've talked about our track record of investing shareholder money with vulnerable customers, and that's something we do all the time, as well. So this is just a - this is part of a transparent bit in our plan that we're looking for funding for, but by no means is the only thing we're doing. More broadly, we were using, and have done in the past, shareholder money to help some of our most vulnerable customers.
But I don't know if, Kendal, you want to specifically say to this - this plan?

Kendal Morris – SPEN
I think there's three areas - I think, we think that the plan that we've put in is good value in terms of the value that we'll deliver to customers versus how efficient that we'll do that in terms of the - the approach and the modelling that we've used. I think it also sets - it's part of a wider piece that Scott previously touched on that we - we have the Green Economy Fund, that's proposed to extend into ED2, and whilst that's targeted at, you know, transport and heat and education - equally, it prioritises vulnerable customers, so, you know, that's another layer on top of what we're already doing, and that sits alongside our corporate social responsibility programme, of which we're putting money into that every year.

So I think there's layers of this for us, and we think that the plan that we've put forward is the best approach and gives the best balance to give the most value to customers but in the most efficient delivery model.

Jonathan Brearley – Ofgem
OK, I'm going to follow up, just to push on this - just a little bit more, to make it real.
We've seen a 50% increase in customer bills. It is possible that we are going to see further increases.
So, imagine I'm in a low-income group with large energy needs - I'm disabled, I'm in a - I have a large family, I'm in a large household and my bill goes up to fund these - some of these schemes, but I don't necessarily benefit from them because you can't cover everybody.
How would that make you feel if you were that kind of customer?
I mean, what would you think about - and would you be encouraging the company to try and absorb some of this from their own shareholders?

Kendal Morris – SPEN
But – in our engagement, we asked those questions so, you know, we asked customers that weren't vulnerable if they would be willing to fund these services.
Obviously, the bills are being held at a level for customers, and we recognise that that is now in a different landscape, but we've got to use things like innovation to drive more value and make sure that we - we're delivering customers as much value as possible in terms of the return on some of these services.
But, absolutely - our engagement specifically asked the questions of vulnerable customers and non-vulnerable customers if they wanted these services, if they would be willing to pay for them and at the time if they could afford to pay for them, and that's not something that we will then put in the drawer and forget about. We'll continue to engage with customers to make sure that this is still meaningful and relevant to them through the price control. But, the answer was that absolutely they wanted us to deliver this in this way.

Jonathan Brearley – Ofgem
So, sorry - I don't want to take up time before we get to our stakeholders but the question was -there will be some vulnerable customers who aren't affected by this who will be paying for others, and it was more about the nature of how we collect money through the networks.
But I'm going to hand over to Steve to ask stakeholders – apologies to cut it short, it's just we're running low on time.

Steve McMahon – Ofgem
Thanks, Jonathan, I think we've got at least a couple of questions, so I'm going to try and go to Jeanette Webb first from the University of Edinburgh - on the environment and then I'll come to Andy Manning on PSR.

Jan Webb – University of Edinburgh
OK, thank you very much and thanks, everyone, for the very interesting discussion so far. I just wanted to follow up - perhaps more relevant to the earlier session - about this question of losses from the network and its - and to put that into the context of whole systems and the efficiency of the whole system, because SPEN's plan explicitly excludes losses from its intentions to reduce the business carbon footprint, but as I understand it, losses account for about 90% of the business carbon footprint, of one and two emissions anyway, so why exclude losses given the critical role they play, but also in the context of whole systems and DSO ambitions?

A loss is not a central part of a whole system efficiency and of the ED2 principle of the lowest cost for customers. Thank you.

Frank Mitchell – SPEN
OK, thank you, so a couple of comments – we do buy low loss equipment. We do look at where it's economic to do that.
We do cost benefit analysis on that and we do look at the whole system approach from - perhaps just to comment on that last, Iain, just to build upon that a bit further.

Iain Divers – SPEN
Sure, of course and thanks for the question, Jan.
So, you're right – loss is a really important part of this process as we get towards Net Zero and clearly it's a fundamental property of the electricity system, as you know, and it's something that is, kind of, outwith our direct control in many respects. So, although we have our Net Zero target of 2035, a really ambitious target for carbon footprint reduction itself in our environmental action plan, we are also focusing on losses as well.
So, for example, we're looking at through - losses as the primary driver, so looking at, you know, more efficient equipment, targeted interventions in our assets. We're looking at 36 gigawatt hour reduction even through wider interventions. Our network backed - reaches in totality around 570 gigawatt hours, so we are putting it as a key focus for ourselves, so if losses falls into few brackets such as technical and non-technical losses as well, but it's a focus for us. We also want to read this into the environmental scorecard and reporting for reputational ODI or incentive with Ofgem as well, so we are looking to make sure we're increasingly transparent in this area, as well.
And to your point on the integration with whole systems as well - of course we do recognise this, and, as I mentioned previously in the conversation, we know that, for example, the efficiency and losses, for example within housing stock or indeed efficiency in the future for - in terms of electric heating, is a key concern for some of our stakeholders and local government, and that's, again, why we want to work collaboratively with them to see what role that we can play in and supporting that for example, as well.
So, we recognise it's not fully within our control, but it's something that we still have a - we think it's a very comprehensive approach to it - within our environmental action plan.

Jan Webb – University of Edinburgh
Thank you.

Steve McMahon – Ofgem
And then back to vulnerability and PSR. So, while we're getting Andy back on, I think he raises an important question just around the targets which seem quite high, but the I know that your current reach is quite low, I think, on some of those needs codes at the moment. So, have we got Andy back on?

Andy Manning – Citizens Advice
Yeah, no, thank you, Steve.
So, yes, on PSR – so, you've got applaudably ambitious targets, but what steps will you take to alleviate deliverability concerns as expressed by your CEG on the PSR reach targets of 80% for each needs code?
I might add one on, referring back to the other conversation – also, how do you ensure these ambitious targets are delivered at a level that's sufficient for consumers to fund, generally?

Kendal Morris – SPEN
OK, so - yeah, we do believe our plan is ambitious, whilst balancing costs for customers. Our PSR reach target of 80% is ambitious, but we know the progress that we've made in ED1 and, you know, you're saying that it's low, but we've currently got a reach of 50% across all of the needs.
Our methods - our datasets are in place and are embedded into our business processes and we understand the gaps that we've got to close and so our business processes are already set up to do that and we'll continue on that journey. I think the other thing that's important in ED2 is our initiatives such as the Coalition of Partners model, as well as the wider vulnerability programme, will also support this target, so it's not a one dimensional feed to deliver this. There will be multi feeds into it. I think in addition to this, PSR reaches one of the metrics that is included in the common framework.
I've personally led probably more than 50 meetings across all of the DNOs to get a common framework agreed for vulnerability, of which PSR reach is one of them, and we've now got a common methodology and framework and assurance as part of that. So, this will be independently assured by an assessor for all companies to make sure that all DNOs are using the agreed methodology and that the numbers stated in the regular reporting are in line with that and we feel that we've got a, personally, got a clear plan for delivery, a clear methodology of how we're going to achieve that, which is already proven by the steps that we've made up to now and then a strong assurance, both internally to SPEN, across our proposals through our own data assurance processes, but also wider than that across the DNOs so that we will be measured like for like and we're confident that we can deliver that.

Andy Manning – Citizens Advice
One quick follow up – Kendal, am I right that the target's 80% of each needs code, and if that's true, what does that mean? How you plan - that seems different. That's very different from an overall reach target.

Kendal Morris – SPEN
Yeah, so we actually do it that way at the moment. So, we measure each needs code, we look at that across national available data, we measure the gap and then we target those areas for each, through our outreach activities. Our target is for each need code in ED2, what we've also agreed commonly, across all the DNOs, that we will do a household calculation as well and we will personally report both of those.

Andy Manning – Citizens Advice
OK, thank you.

Steve McMahon – Ofgem
Thank you, Andy. I think I'm going to take one last one from me, if I may - I think just going back to the point at the start that Jonathan made, that certainly with the government directions we need to go further and faster in rolling out LCTs. On connections and minor connections in particular, when you look at the latest data, your performance is down compared to the start of ED1.
So, your average time to quote and connect performance last year was I think 5th out of the 6 DNOs so what is it you're going to do in ED2 just to make sure that that improves and you're driving timely connections?

Frank Mitchell – SPEN
Thanks, Steve. So yeah, I guess an area for focus for us and I would say that we don't - we haven't been doing anything to do with when people pay as it perhaps helps others, how they manage some of those positions.

But putting that to one side, we're very focused on making sure our time to connect and time to quote are in line with what we need to do with ambitions of our communities.
So that's why we're digitalising a lot of what we can do in our quote front but actually centralising from that point of view to make sure we can see what's coming through, manage that much clearer to make sure we can cope with the demands that that's going to bring at the front end as well as making sure that at the back end, as far as point of delivery we use innovation and other technology and flexibility where we can to make that happen quicker, but where we have to do any reinforcement, other physical work, we're already looking at recruiting many more people through our own business and also in our supply chain to cope with what we can see come down line, we're already talking to others about how we flex up if that actually is needed in the future.

Steve McMahon – Ofgem
Ok, I'm conscious of time, so Jonathan, I'll hand back to you just for the closing remarks.

Jonathan Brearley – Ofgem
Great, so first of all, I just want to say thank you to everybody who came here, particularly to the Scottish Power team for answering all of the questions that came through, but thank you also to the Challenge Group, Customer Engagement Group and, of course, to all the stakeholders who have contributed and also listened to the debate today.
There's clearly a number of issues that have come up, I won't try to summarise them all, but I think a few are – so, first of all, looking at the spend plans, particularly non-load spend and efficiency issues and the - what will no doubt be a continued - debate on the upfront versus ongoing efficiency goals within the plan itself. Clearly a lot of debate about DSO and about widening and maximising that function, comparing the spend to the benefits of that function, but also reassuring ourselves that we have something that is genuinely independent, given the growing importance, locally, of that function. Making sure that following the storms we are building a system that is continuing to be –and, in fact - improving in terms of resilience and response to what we expect to be events that are going to be more frequent in the future, and then I think, generally a positive response to the vulnerability strategy, but no doubt a debate about where the funding will come from to support it and to underpin it.
So, with all of those thoughts, we'll take all of this through to our draft and then final determinations. As you know, this hearing has been recorded so after all open hearings are completed, we will be putting this on our website and with the transcript and, finally, we'll consider these - this discussion very carefully in our further deliberations for our draft determinations, so once again, thanks to everyone involved, particularly the Scottish Power team, and I think we're on the penultimate one, so there's one more to go. Thanks everybody.
Page Break
Unanswered questions

1. **Hywel Lloyd, Facilitating the Future: How will you manage the demand from some customers for LCT, with a fair approach to the impacts on LV headroom - could LAEP play a role working with LAs in terms of targeting?**

Our networks will be on the front-line of the Net Zero transition. Getting our intervention plans right has never been more important. The traditional method of developing price control plans using statistical economic models wasn't going to be good enough. That's why we've delivered our Engineering Net Zero (ENZ) modelling to systematically identify where, when and how to intervene (see page 38 of our main plan). Our ENZ model uses outputs from our granular Distribution Future Energy Scenario (DFES) forecasting - down to individual house and street level, and comprehensive power flow analysis at half-hour-intervals for every forecast scenario over the next decade – 175,000 iterations per network asset.

We will also set up a team of ‘Strategic Optimisers’ who will work closely with local authorities (LA) and other stakeholders across our network areas to develop plans for decarbonising heat and transport. This role will involve supporting LAs to understand where network constraints and opportunities are, and how to get the most out of the existing network. Strategic Optimisers will also feed-back into our investment and intervention plans to achieve a targeted approach for local decarbonisation.

We are also committed to working with our local communities. We will help communities across our areas embrace local solutions in a way that makes sense for the local needs and network conditions while also supporting job creation. In our ED2 business plan we have proposed a Community Energy incentive for DNOs which will place a focus on engaging even further with Community Energy providers.
We have also proposed a ring-fenced fund for community-led projects: our proposed Distribution Net Zero Fund (£30m) is open to all of the towns, cities and local authorities we serve, ensuring the delivery of wider community impact projects. We have proposed that 25% of our Net Zero Fund is ring-fenced for community energy projects. This is subject to Ofgem approval as part of their review of our ED2 Business Plan.

2. **Hywel Lloyd, Facilitating the Future: Follow up to earlier question, how will you/any DNO ensure they balance timely connection with fair managed transition - first come first served may make things worse?**

With regards to domestic LCT connections, for RIIO-ED2 we will further develop our ENZ Model into a real-time analytical platform – our ENZ Platform. This will integrate four previously independent data sources (network monitoring, smart meters, enhanced forecasting, asset condition), and use them to run automated power flow analysis for the entire network in real-time.
This produces network analytics to tell us what is happening on the network right now, and what will happen in operational and planning timescales. This information means we can make real-time data-driven planning and operational decisions. We will further increase its capability by deploying over 14,100 LV network monitors in RIIO-ED2.
With the help of the ENZ Platform, we can make more informed and coordinated investment decisions to reduce cost and disruption for our customers while delivering what they need to connect their LCTs in fair and timely manner.
An example of this is our proactive looped service replacement programme. Our plan coordinates the replacement of all of the services in an area at one time, along with the mains cable in the road and any substation works that are required. The alternative reactive approach of replacing each individual service separately would be less efficient and would expose customers to delays in connecting their LCTs.