

Transcript – SSEN ED2 Open Hearing – 25th March 2022

Steve McMahon, Ofgem, Deputy Director, Network Price Control Setting – introduction:

Good morning, everyone and welcome to our final RIIO ED2 Open Hearings, this time with Scottish and Southern Electricity 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 we start the full proceedings, I will briefly cover a few housekeeping issues for the event – and apologies to those of you who may have heard these multiple times before.

First, just to be aware that the session is being recorded and a transcript will be published of the discussion and all of the questions posted in the chat from participants. The session is also operating as a moderated Teams session, so the visible participants are currently limited to the Ofgem panel members, the SSEN attendees and the representatives from the independent ED2 Challenge Group and the SSEN Customer Engagement Group. From Ofgem, alongside myself, we have our chair, Martin Cave, non-executive director – Myriam Madden and Akshay Kaul, the Networks Director. From SSEN we have Chris Burchell - Managing Director of SSEN Distribution, Andy Huthwaite - RIIO-ED2 Programme Director, Kenny McAllister - Finance Director and Clothilde Cantegreil - Head of Regulatory Strategy. From the Challenge Group we have its chair – Roger Witcomb and its member, Bob Hull. From the SSEN Customer Engagement Group we have Tracey Matthews, its chair and Maxine Frerk, its member.

All other attendees will have their cameras and microphones disabled in the meantime – if you – if any of our stakeholders do wish to participate and pose questions then please post these in the chat function along with your name and organisation – so don't use the 'raised hand' function. The questions are being moderated by some of my Ofgem 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 SSEN team. You will still have to unmute yourself from your laptop, we did have a few issues with that functionality over the course of these sessions. If for whatever reason you can't appear then I may 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 be collected and we will look to ensure they are all covered as an addendum to the post meeting transcript. The session will run for 2 hours following a 15-minute presentation from the SSEN team. We're split into two thematic sessions with a very short break in between. Theme one is 'Preparing the Network to meet Net Zero at lowest cost to customers', theme two is 'Delivering a world class service and ensuring no one is left behind'.

I think we'll run longer, probably, on the first theme given the range of important issues that covers. The Challenge Group and the Customer Engagement Group will open the questioning for each session followed by the Ofgem panel and then we'll come to wider stakeholders for their questions.

Finally, just a reminder that the focus of today is on SSEN 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 I'll now hand back to Martin for his introduction.

Martin Cave - Ofgem – Chairman - opening remarks:

OK, thank you, Steve and let me add my welcome to his.

We are all acutely aware of the current situation in the gas market, largely reflecting the awful events in Ukraine.

These cost pressures are likely to persist for some time, and clearly there are going to be huge challenges for households across the country. The government, Ofgem and the industry have the responsibility to do whatever we can to protect consumers.

This requires us to make decisions that work towards a greener, more affordable energy system, that will protect us from the price shocks of tomorrow.

The ED2 price control provides a great platform for us to do exactly this. The local distribution grids will sit at the heart of the energy system transition. This means new investment. We must also make sure we extract the most value out of the existing infrastructure and tap into the potential offered by new technologies and flexible resources such as EVs and battery storage.

Later this year, it'll be our responsibility to make determinations on the essential services the networks will provide over the five-year period to 2028, and what customers should pay for them. This will require a careful balance ensuring investment is made in the right place at the right time and for the right price. Price controls are a complex business. We must try to simplify the process and make it more accessible to the people that matter; the customers and users of the network, and the wider stakeholder community that represents their interests. That's the purpose of this open hearing today.

Extending the discussion and making sure that collectively we have the opportunity to scrutinise the spending plan the company has proposed and I'm very grateful to you for coming and taking part in this. We at Ofgem have many opportunities to meet with companies and we would like today to witness as full as possible a dialogue between it and its stakeholders.

So, I now hand over to Chris Burchell of SSEN for his 15-minute presentation.

Chris Burchell – SSEN

Thank you, Martin and good morning, everyone. I'll just load the slides, that's fantastic – good.

So, I'm Chris Burchell, I'm the managing director for SSE distribution and I'm delighted to have the opportunity to present our ED2 business plan – powering communities to Net Zero – to you today.

This is a business plan that's been crafted to address both today's challenges and opportunities which Martin has just outlined, and those that we can see coming in the future. We've strived for a plan that is ambitious, compelling and transparent whilst also being affordable and value for money and most importantly we have co-created this plan with the communities that we serve and it is strongly supported by them.

Now, to understand our plan and before attempting to make direct comparison with others, it is really critical firstly to understand the diversity and the uniqueness of our two networks, serving radically different communities 500 miles apart. They have different geographies, populations, demographics, needs and priorities.

Our Scottish network makes up 25% of the area of Great Britain, but serves only 2% of the population. It's the only network with extensive subsea cables, and the only network to run DNO-operated embedded generation. Scotland's climate change goals exceed even those of the UK's, with huge demand for community and gigawatt scale renewable generation connections combined with assertive policies to drive the uptake of LCTs.

Our southern area serves the largest population of any single DNO licensee and is seeing enormous economic growth with associated connections activity, with rapid uptake of power-hungry digital infrastructure as well as EVs and other LCTs.

Forestry is a key industry in Scotland with much of our network running through plantations and in the South, things are much more intricate with a complex patchwork of land ownership and use, combined with the fastest vegetation growing rates in the UK.

So, in short, we serve two areas, both with varied, unique and different characteristics which must be taken into account in comparing our plan with other DNOs.

Now, since submitting our plan at the end of last year, the world has changed. We are in the midst of a sharp cost of living crisis with particular pressure on energy bills.

We've suffered the worst storms in decades with record wind speeds in each of our licence areas. This has led to strategic discussion on the level of resilience society expects from networks, quite rightly.

We're also sadly seeing war in Europe, causing us to reassess energy security and our wider geopolitical assumptions.

Our business plan is well positioned to respond to where we find ourselves today, allowing for rapid decarbonization and investment in whole system resilience.

Our plan focuses on a Just Transition. It has provisions to help protect consumers, particularly the most vulnerable, and understands the foundational role that DNOs play in communities; creating opportunities for partners, business and people.

Importantly, our plan is designed to enable Net Zero transition at lowest cost to customers over the cycle. Our plan is the product of over two years of work with the communities we serve. It has been co-created with them in an open and transparent way, with a focus on long term sustainability and our customers' interests. Together with our stakeholders we have created a blueprint of how our regions wish to see their energy network and wider energy systems develop.

We have listened to and been challenged by our customers and stakeholders and have arrived at a plan that 86% of respondents rate as value for money.

We believe it is the right plan for our communities and our networks, right now.

Our core plan of £3.59 billion is both efficient and affordable. We have committed to the second highest level of ongoing efficiency amongst DNOs and when this is combined with embedded efficiencies our plan sums up to a combined efficiency challenge of over 10% of totex.

Beyond this core £3.59 billion, there is £400 million in our plan to address the unique issues we manage in Scotland, including 59 island networks and over 100 subsea cables, and this amounts to around 10% of totex that no other DNO requires.

Despite this new investment, our plan foresees that the network component of consumer bills will reduce relative to ED1.

Our plan contains a package of additional value propositions that go above and beyond, that we're well placed to deliver for communities.

And lastly, on this slide, I really want to stress that our plan is open and transparent as has been the process to get to here, we have given our customers and supply chain, early visibility of our thinking.

We have published complete documents early and not summaries. We have been clear about costs and uncertainties and how these link to the ability to gain long term efficiency rather than hide almost certain costs away in uncertainty mechanisms, potentially increasing long term costs.

Sir David Attenborough's speech to COP26 last year, of which there's a quote on this slide, was inspiring. The lesson for us in ED2 is clear in that the cost of delaying decarbonization vastly outweighs the risk of being slightly early.

We know that the most efficient solution for the lowest cost decarbonization for consumers today and in the future is to ensure that we don't delay now and thereby potentially create further barriers, costs, and inefficiencies in future years for future generations.

We are confident that our plan will deliver Net Zero in a cost-efficient way, maximising the efficient utilisation of our network infrastructure and through deploying innovative solutions, taking a whole system approach. In doing this, we have also considered carefully, how to find the right balance between bill payers of today and tomorrow to ensure that our plan delivers Net Zero at lowest cost overall to society. Now I've already talked about the huge efficiency commitment we've embedded in our plan. Add to that the fact that we have applied a flexibility first approach to all capacity schemes in the plan.

This philosophy is baked in throughout and it drives big and necessary savings by deferring investment or replacing reinforcement with flexible connections.

And I really want to stress that flexibility is both central but also critical to the efficient deliverability of our plan, even in situations where network solutions will release more system value in the long term, flexibility will buy us time to plan and build networks efficiently in the context of enabling rapid and timely deployment of low carbon technologies without becoming a blocker.

Our ambition extends further with broader benefits from innovation and digital investment, all summing up to a plan that delivers challenging levels of efficiency now, while still delivering on outcomes for customers and not foreclosing any Net Zero pathway and this approach has been strongly endorsed by stakeholders and our customers.

And in developing our plan with our stakeholders, getting sustainable best value out of the energy system was at the heart of our thinking. In practise, that means creating new opportunities and markets for energy services. We've learned a lot in ED1, not least developing a smart grid trial in Oxford with 34 participants and stakeholders which has informed our investment to accelerate our DSO capabilities.

The delivery of Net Zero in our network will only be made possible by developing sophisticated flexibility markets.

We want to see fair opportunities for all to participate in these markets and we will ensure our own accountability through open data, our flexibility providers forum and annual surveys.

We've clearly set out the benefits accruing from flexibility, direct financial savings as well as benefits from enhanced resilience, more efficient plan deliverability and decarbonization, and we also know that longer term benefits such as access to ESO markets can also be added on, although for transparency we have not sought to quantify these just to boost the appearance of our numbers.

Vital to this effort, also, is to influence the demand side through efficiency and demand reduction measures. This priority is weaved throughout our plan. You can see it in our flexibility services, vulnerability, community funding and innovation sections, and notably in our customer value propositions. All of this ambition can only be made to work and be scaled up amongst our communities through open and transparent collaboration, which is increasingly smarter, digital and tailored to need.

With the collective challenge to meet Net Zero at lowest cost to customers, our stakeholder-led plan is balanced, transparent and calibrated to deliver for current and future generations.

What's more, it has been carefully designed with customers and communities at the forefront to enable participation and benefit as we move forward.

It is vital that this plan is enabled for our customers through a regulatory approach that balances affordable investment and efficiency at best value for customers today and tomorrow in a way that continues to sustainably attract investment at a fair and appropriate cost of capital.

Now, I'm moving to address the second broad theme. It's a timely reminder of recent experiences for our customers. Here's a picture, for example, of a generator arriving at a vulnerable customer's house in the north of Scotland during Storm Arwen last year.

A changing climate, including more extreme weather, is creating new challenges, new vulnerabilities and new obligations. In response, we need to innovate and adapt to become more resilient and play our role as facilitating rapid decarbonisation while protecting consumers who increasingly depend on a reliable supply of electricity.

Our networks deliver world class levels of reliability, but our stakeholders tell us that with increasing dependence on electricity and the threats of climate change, going further on strategic resilience is essential.

We have always had a strong focus on resilience in our plan because this is what our stakeholders and customers tell us that they want.

It is a consistent priority for them. We propose resilience investment of over £1 billion across asset replacement and refurbishment, as well as targeted reliability improvements.

We will target asset replacement work where it is most needed on an assessment of risk rather than mechanically triggering work based on age and criticality.

This saves money for customers and maximises the use of existing infrastructure that they've already paid for and unsurprisingly, this risk-based approach commands very strong stakeholder support.

We target a 20% reduction in interruptions and reduced from - reducing worse served customers by 75%, prioritised by impact and vulnerability.

This has been carefully thought through to benefit the customers who need it most and doing the right thing rather than simply chasing metrics and rewards that may not represent great value for money.

Doing the right thing extends to ensuring climate adaptation is fully considered at every step. Our regional climate adaptation action plan embeds learnings from ED1. For example, our resilience as a service innovation project that is looking to improve resilience in remote location through market-based solutions and thereby avoiding their need for polluting diesel generation.

This is all part, again, of our flexibility first approach that extends to resilience. We will continue to procure flexibility services and capacity to support planned and unplanned outages, and this is not the only innovation. We're also using data and digitalization to improve system resilience and services.

Our use of LiDAR around tree cutting does just this, enabling a clear, targeted risk focus for this key area and reducing costs and as the first company to adopt a Just Transition strategy, just transition is demonstrably a matter of concern and priority for SSE.

We recognise the debate as to how far the role of the DNO should go in this space, and so we have carefully assessed the support that we can offer alongside partners to vulnerable customers.

Our goals are clear around growing the PSR customer database and supporting 200,000 customers in fuel poverty and will go further with resilient support for 1,000,000 while recognising that vulnerability itself has a changing and transient nature to it.

Our plan also has further ambition through innovation, partnerships and our shareholder financed Net Zero Communities Fund and building on this further, our personal resilience plans CVP would see us go above and beyond for those most in need.

Overall, enabling a just transition is a mindset and a priority that flows through our whole plan from innovation to how we set target investment, through flexibility and whole system approaches, this really matters. We cannot achieve the energy transition unless it is supported by our customers and our communities and that is why our plan is built in this way.

So, to summarise this second theme, our stakeholder-led plan has been shaped by and prioritised through what matters most to our customers and communities.

It means investing in resilience to drive world class reliability and ensure that the energy transition is both delivered and inclusive for all.

To be successful, our plan needs to be enabled by a regulatory framework that assesses climate resilience fully and learns from recent events this winter.

It should also support stakeholder needs for a just transition now and for future customers. So, when considering our plan, I'd like you to bear in mind the following; firstly, when properly normalised for our unique Scottish activities, our plan compares favourably on cost efficiency. It enables customer bills to decline as well as providing enhanced investment and facilitating Net Zero.

Secondly, we have been open and transparent about costs. We have balanced our base ask and uncertainty spend to optimise efficiency and protection for our customers, whilst enabling Net Zero and new flexibility markets to emerge at the same time.

And lastly, while serving two very different regions, our plan is strongly supported by customers and stakeholders in those regions.

This is what is needed and wanted for our distribution networks, facilitating Net Zero efficiently and affordably in a just transition for current and future customers.

Thank you very much for listening and my team and I are very much looking forward to your questions.
Thank you, chair.

Martin Cave – Ofgem

Thank you. Thank you, Chris for that account.

We're now going to embark upon theme one, which is entitled 'Preparing the network to meet Net Zero at lowest cost to customers'.

I guess this will probably take us until a little bit after 11 o'clock when we'll have a 5 minute break and then we'll come back for theme two and I think the first question is going to be asked and comments made by Bob Hull from Ofgem's own Challenge Group.

Bob Hull – Challenge Group

Hi, good morning, everyone and if I could kick off with some questions on your expenditure plans for ED2. Your bid for totex is by far the highest of all DNOs, the increase from ED1. You're looking - if you include uncertainty mechanisms - for an increase of about 90% on current spend levels and taking uncertainty mechanisms out, it's an increase of 50%.

You seem to have chosen the ED2 period to add lots of additional expenditure in both baseline and uncertainty mechanisms.

My question is, really - why haven't you been able to control your costs to current levels and deliver value for money for future as well as current consumers?

And in answering that that question I'd welcome if you could focus on two cost areas in particular, one is your non-load related capex where you've increased this by 70% and also your network operating costs which have gone up by 21% - the maintenance costs in particular, and both of these are much higher than any other company. So, could you, you know, explain why this is?

Chris Burchell – SSEN

Bob, thank you. Yes, you're absolutely right that our ask in ED2 sees significant increases in expenditure, so it's absolutely right that we should be held to account and asked to explain why that is. I think firstly, we need to recognise that in normalising our activity against other DNOs we do have additional activity. When you take that out, actually, we compare much more favourably to the other DNOs in terms of overall quantum of increases. I think it's worth remembering that our plan has been co-created with stakeholders, it's been assessed, it has been benchmarked, it has been tested. We have justified, through engineering justification and cost benefit analysis, all of our proposed expenditure, we have added to that, a significant challenge on efficiency around unit rates and ongoing efficiency to make sure that the additional activity that we have planned in our plan is more efficient for customers, but, in short, the plan here is that there is increased activity that is required in those areas.

You've asked about two specific areas. I'll ask, perhaps, Kenny to come in at this point and maybe explain a little bit more about the process, and perhaps start to address the non-load and NOCs point that you pick up.

Kenny McAllister – SSEN

OK, thanks Chris. Yeah, thanks, Bob

So, as Chris said we did - we've had our costs externally reviewed. We've also used what we've considered - and this is best practise that we've used - a bottom-up build on our cost base and triangulated that with our top-down econometric modelling and market tested, wherever possible, our cost base.

The costs fall into - there's a real difference between our volume increases versus unit rates. We've taken a real challenge on unit rates because we do recognise the additional ask and there's a large stretch on unit

rates, both of what we're doing now in the latter parts of ED1 and into ED2 and that's both in - well, that's across unit rates and stretched efficiency.

In the non-load area, it's predominantly driven by strategic resilience and also some cyclical asset investment with end-of-life assets, particularly, underground cables and also DSO and digitisation and in the overall totex ask, it's about accelerating decarbonisation, so all of these activities have been driven by customer needs, strongly supported by our stakeholders and continually tested through the engagement phases to reflect feedback and validated and changed wherever possible.

I think it is worth noting that, as Chris said, where our costs are normalised for the north of Scotland - additional cost that we incur, doing this currently because that's the only information that we have, some companies haven't shared their ED2 plans for us to do the efficiency work on. This has our north of Scotland area at the efficiency frontier and with - we have spoken about a small gap in a few key areas in our southern area and we've addressed these in our unit rate challenges and probably, we're not satisfied and we'll always look to do more here - that's where we brought in stretch challenges.

Bob Hull – Challenge Group

So, I mean, can I just - just to follow up on that? I mean, on network operating costs, you know, as an example, your inspection and maintenance cost seems to have gone up by 50%. You know, why is that?

Kenny McAllister – SSEN

It's, well, on - across base, we have taken a large unit rate challenge and so I would, at this point, I will hand over to Andy on the volume requirement that we've made.

Andy Huthwaite – SSEN

I think the volume requirement is reflective of the increased activity that we see to make sure that we have a strong, resilient network going forward, Kenny. So, you know, our inspection and maintenance activity - it's something that we need to accelerate going into ED2 and I think if you look historically on things like rising lateral mains, for example, there's been quite a bit of debate around ownership, so we've taken some additional measures to make sure that we put a robust inspection maintenance regime in around that and some of that is reflected both in the investment that we now have to do in that it drives a particular cost driver, but also increasing our inspection maintenance activities around that particular area.

We're also - in relation to the north of Scotland - we're looking to increase and actually use innovation to support that - things like a subsea cable maintenance regime. So, we've got specific remote assets that will require further intervention, which again is reflected and there's some additional costs associated with that because of the remote nature of the network, and so I think our inspection and maintenance is reflective of the focus that we have on resilience, as well as safety and compliance and, as I say, that's reflected in the plan, it reflects the increase in activity generally and it reflects the need to make sure that we have a strong, robust and resilient network going forward.

Bob Hull – Challenge Group

So, I suppose you know I'm - what I'm struggling to, sort of, understand is that your geography hasn't changed from ED1. You know, you've still got the same network in the same place, but your costs have gone up considerably in that time, seemingly because you've identified new activities that you want to undertake, you know, and it does seem this step change is - you know, what is driving that?

Kenny McAllister – SSEN

So, in non-load there's a variety of areas, there are - there's end of life assets which are particularly LV and HV cables, which have been a growing issue during ED1 that we have been addressing.

Actually, one of the things I would say is that on the blunt metrics you used earlier on, which makes sense, it's eight years divide by five - our latter part of the price control has been a higher spend time than our first half of the price control Bob and we have been spending more on replacing these assets in the second half of the price control, along with some of the environmental work that we've got to do, including floods, such as - some of it's legislative, the PCB and SF6 reductions and fluid filled cable, and some of the additional work that's required for our subsea cables, so there's an inspection programme for our subsea cables that wasn't included in ED1 and that's part of our overall subsea cable programme, so, you're right - there are a few new areas, but there is - there is reasons for all of these areas.

Bob Hull – Challenge Group

OK, I mean - I guess, you know, in the sense of time, that, you know, these are issues that, clearly, Ofgem will need to sort of look at further - appreciate your answers.

I mean, what - one just, sort of, follow up quickly.

I mean, you say, you know, 86% of your stakeholders support it, you've got 4,000,000 customers.

How many of those 4,000,000 customers would welcome a 90% increase in your expenditure? You know, how does your 86% relate to your 4,000,000 customers?

Chris Burchell – SSEN

So, Bob - the 86% relates to customers at the survey that think our plan is value for money based on what is required in the round.

I think, you know, when you pick at the non-load increases, as Kenny said, some of this is cyclical.

A high proportion – a vast majority of our LV underground cables were installed in the 1950s and 60s. The failure rates are increasing, we can see that through the end of ED1.

We can choose not to do that, we can choose not to address that problem, but, actually, what our stakeholders are telling us, is they want a more reliable and resilient network. They need to rely on electricity. They want to charge their electric vehicles, they want to be able to convert their heat to electric heating.

They can't do that if our LV cable network is failing because it's at end of life, so this is a cyclical thing, it is increased activity. We acknowledge it is increased activity and therefore it is increased spend.

Roger Witcomb – Challenge Group

Can I chip in there, just quickly, just because as a non-engineer we're trying to understand - what you're saying, as I understand it, is that you've done a really thorough job and the answer is what it is and, you know, I understand that and it makes sense, but I guess the question we're looking to is, can you provide any insight for us non-engineers as to why SSE should be an outlier compared to the other companies in terms of growth or spend? I mean, that's really the question and - is there a simple - are there any simple insights you can give, so we'll be different because...?

Chris Burchell – SSEN

Thank you, Roger. I don't know how the other companies fare in terms of their underground LV cables and when they were installed, but our subsea cables is a significant increase too - in ED1 our subsea cable spend was overspent by - it is overspent and subject to no other faults happening in the next five months - by £60 million. This is an asset class that requires careful attention. If we are to enable the Scottish islands to be resilient both in terms of demand and generation, because the reliance on those networks is

becoming ever more critical as a result of that, of both demand and generation, then the subsea cable network needs to be robust, it needs to work and so we have taken a very clear approach in terms of the asset management of that class and that drives additional expenditure.

It drives a proactive management of risk around those cables in a way that perhaps hasn't been done previously. You'll, as I say, the alternative is that we don't do that, and we don't do that spend, and we may find, then, an increase in subsea cable faults and islands being cut off with the subsequent issue of then having to power those islands with very polluting diesel generation for extended periods, which I don't think is right.

And when, to Bob's point, if you ask customers -is that what you would prefer, against the expenditure that we're proposing in the impact on the bills, then 86% of customers say, no, we would rather have this plan.

Steve McMahon – Ofgem

Chris, can I just follow up? So, just one thing on the subsea cables - you mentioned there the overspend in ED1 but all of that wasn't against end-of-life cable, some of that was against new or nearly new cables, so what does that tell us in terms of what the position needs to be in ED2?

Chris Burchell – SSEN

What it tells us, Steve, is that we need a coherent, comprehensive asset plan for subsea cables and the whole subsea cable network, which we now have and that is contained into the ED2 business plan, and some of those cable failures in ED1 have been end of life. In fact, the majority have been end of life, condition based issues, so it is absolutely right that we are proactive around that and we manage that appropriately in ED2 and beyond. This is not just an ED2 asset strategy, this is a strategy that has to look far further ahead than that. This isn't a five-year plan. It allows us to manage this network appropriately for the long term.

Akshay Kaul – Ofgem

Chris, can I just probe you a bit further on a couple of points? So, I think you mentioned in your answer to Bob that your unit rates, you think, are not - they don't look so bad when you normalise for the change in your activity levels. I think when we take a look at your unit rates, they seem broadly consistent with your unit rates for the licensees coming out of ED1, which were already very high compared to the other DNOs. So, it looks to us like you're, in a sense, baking in the inefficiency of the ED1 into ED2 and then taking the whole of the ED2 period to try and catch up with the others and I think a reasonable question from customers would be - why haven't you caught up with the others and baked in the efficiency right at the beginning of the plan? And the second question I have is when you look at the non-load side of your expenditure, you can see a very big increase in asset health expenditure, and we look at your ED1 performance and there is a big underspend in your asset health expenditure.

Now, a cynic might say that what you're doing is basically taking, you know, deferring a lot of asset maintenance that you should have done in ED1 and then asking for the money again in ED2. How do you justify that to customers?

Chris Burchell – SSEN

Yeah, OK thanks, Akshay.

Two important questions - I'll ask Kenny to respond to them shortly. I think the first thing to say is that from an asset health- I'll answer the second one first if that makes sense.

We are meeting our targets around asset health and we will meet our targets for ED1. We are not expecting customers to pay twice for things, that isn't appropriate or necessary.

In terms of efficiency, at the start that- we have a strong story on efficiency which we tested with customers and which they support and, which is incredibly challenging - not just the ongoing efficiency that we've embedded in with the second highest rate of all DNOs, but also the unit rate efficiencies that we're challenging ourselves, having looked at the benchmark and having it looked at how we're performing in Scotland and in the South, where there's two different stories, actually, but perhaps, Kenny, you can expand on that a bit further.

Kenny McAllister – SSEN

Yep, so on the – so, actually I don't recognise the - we've done extensive benchmarking both ourselves and we've had external consultants do this for us, using ED1 models and we show in our Hydro region that our unit rates are in the upper quartile of efficiency. In the South, we did identify a gap to efficiency and we've built in, as Chris said, we've built in efficiency both in the current period and in ED2 with a further stretch – so - and we haven't seen the other DNOs' plans - we can't see all of the data sharing, so the latest data we've run these efficiency models on is 2021, which is the last ones for everybody.

On the large underspend in health index - the numbers we have in our forecast, are we're spending approximately 91-92% of our asset replacement allowance in ED1 and that would be - I mean, that would look to me as if that was an efficient underspend - a targeted, efficient underspend on delivering on outputs, which is what we, as a DNO, should be trying to achieve for customers.

Martin Cave – Ofgem

So, I think it's probably time we moved on to Bob's second question, but do finish your answer, I'm sorry.

Kenny McAllister – SSEN

No, it's OK, I was done, thanks, Martin.

Bob Hull – Challenge Group

OK, thank you. Yes, if I could move onto your DSO plan for ED2.

In your annex 11.1 you set out that you're planning to spend £93 million on your DSO activities in ED2, this will deliver benefits of £18m to £46 million and of that, about £6 million is through flexibility market benefits, which is a very, sort of, small proportion of the savings.

You seem to say this is because you've chosen a customer transformation scenario, which I note, sort of, gives a 40% demand increase between 2019 and 2028, which is far higher - more than double that of any other DNO, so I suppose I'm asking, sort of, two questions, really around your DSO plan. You know, so - why does it not focus on - why is your ambition for non-network solutions, flexibility solutions so limited, you know, and why do you have such a high forecast for investment, based on your demand forecast?

Chris Burchell – SSEN

OK, thanks Bob – so, is our ambition limited? I don't think our ambition is limited at all.

We have significant ambition around the use of flexibility, and indeed, as I said in my presentation, we're crystal clear that if we don't have efficient, viable maturing, flexibility markets to support the transition to Net Zero in ED2 and beyond, if we don't have that, then deliverability of the transition, particularly an accelerated transition, is going to be very, very difficult indeed, so it is fundamentally part of our plan.

What we see in our plan is significant demand. We see it now in ED1, we see significant demand growth.

We can see in in the next couple of years with connections demand, huge growth, known demand, known quotations, accepted quotations that we have issued out, data centres, generation, flexibility - all of that is a huge story and we can see that already, so that's known-

Bob Hull – Challenge Group

So - sorry to interrupt - I mean, but a 40% increase, which is far higher than any other DNO - why is yours so much higher? What's sort of - what's so different?

Chris Burchell – SSEN

Are you talking about peak demand, Bob? Ah, I see, OK.

So Andy, perhaps you want to answer the question on peak demand, because I think there is an explanation – a simple explanation to this.

Andy Huthwaite – SSEN

Yeah, so I think - just in relation to the question, Bob, I think we've conveyed that we don't believe that peak demand is an appropriate measure.

Our load forecasts are based on what we see as the - in fact, the least aggressive Net Zero scenarios and we still anticipate consumer transformation being the most credible scenario that will play out.

So, the peak demand point, I think, is moot because it's not really the key underlying driver for our load investment plan, particularly if you consider that that's measured, at sort, of GSP level and actually the demand growth is likely to be at lower voltage. So that's the basis on which we've set our load forecast in particular, and as I say, it's based on the most, sort of, least aggressive Net Zero compliance scenario.

There was some additional investment funding in the first two years to make sure that all the future credible pathways are met and, as I say, we believe that the consumer transformation is the most credible outturn, so that's the basis of our load scenarios.

I think, also, just on the point of peak demand - because I know this was raised by the Challenge Group previously - that when we submitted the peak demand information and the data tables, that there were - it wasn't clear what the assumptions were that sat behind that. We have subsequently had an SQ actually, through the process from Ofgem, and we've looked at the assumptions that sit behind that in comparison to other DNOs, and we've actually readjusted that to align, and so it's actually bringing it back down to about a 16% position, which I think is more broadly in line with others.

So, we'll set that out quite clearly in the SQ response, and we've detailed exactly the assumptions that sit behind that.

Clothilde Cantegreil – SSEN

If I could just add to Andy's point, very briefly, before you go on, I think our approach is in line with Ofgem's guidance, and it has been supported by stakeholders in terms of that split of what goes into the baseline versus what is captured through uncertainty mechanisms.

But I think one thing that's really important in discussion here, is looking at mechanisms that will flex up, but those mechanisms could also flex down and we've made a proposal for that. We know we're in discussions of Ofgem, so actually the mechanisms will be there to protect customers if that demand doesn't arise.

We think that's a really unlikely scenario, but I think it's an important part of the conversation as well, apologies, Robert.

Bob Hull – Challenge Group – SSEN

No, that's fine. I mean, I suppose my, sort of, question's - the flexibility target does seem very limited against the amount of investment that you're putting in place, and it does appear that you're investing in assets or preferring asset solutions.

I mean, perhaps I would just, sort of, close by a comment - I mean, you in your opening presentation, you quoted David Attenborough. I mean, if I can quote your finance director from your corporate

announcements earlier on this week where your aim is to invest £7 million a day and focus on strong shareholder returns and attractive dividends from your investment.

You know, it does feel that this is - this bid is weighted towards shareholders rather than customers. If I could offer that comment.

Chris Burchell – SSEN

I absolutely must make a quick reply to that, Martin, if I can please, because I completely refute that. I don't think it's a surprise for a CFO to be talking about profit and returns for a business because that is their role.

But I think in terms of us preferring network solutions to flexibility, absolutely not - every single load investment proposal that we have put in place into our plan has been rigorously assessed for flexibility first and the plan that we have and the scenarios that we have chosen enable both things to happen. This cannot be a binary debate - is it flexibility or is it reinforcement?

We saw an announcement today from government around multiplying the number of EV chargers in the country from 30,000 to 300,000 by 2030 - ten times the ambition.

We need to do both, we need to develop and have maturing flexibility markets and enable those and we have a CVP that wants to accelerate that for communities early on in the price control but we can't wait around to then become a blocker to Net Zero. We can't wait around to be able to have the network that's able to respond to the demand that is there today, so we need to do both. We need to enable both and we have a plan that does that.

Martin Cave – Ofgem

OK, I think we're going to move on now to Maxine Frerk from the Customer Engagement Group - Maxine.

Maxine Frerk – CEG

Thank you and my question does actually build quite nicely on what Bob was just asking about.

So firstly, we've just been talking about the range of uncertainty around the different Net Zero pathways and Clothilde talked about the kind of uncertainty mechanisms and there's an awful lot in the uncertainty mechanisms if demand grows in the way that it could well do.

Can I, though, push you on the deliverability if we hit some of those alternative scenarios, because this isn't just about getting more money in?

We've talked generally in the Challenge Group about the importance of – well, you've talked to us about the importance of – having, you know, a clear line of sight for your supply chains, the challenges around getting staff in - how would you actually, credibly expect to, kind of, put your plan on to steroids in terms of deliverability, should any of those more upside scenarios materialise.

Chris Burchell – SSEN

Yeah, Maxine - this is a really important point - deliverability, of course.

We thought very carefully about this. We thought very carefully about the impact on skills, on workforce, on supply chain and on partners and, of course, the plan that we have proposed is a very flexible, agile plan that could be varied up and down, as you say, so it needs to be a mature, flexible, agile approach to delivery as well.

We have got very comprehensive plans around workforce enabling - this is a big, big challenge for workforce. We recognise the market isn't there right now. For that, we will need to grow, we will need to invest, but what an opportunity that is for our organisation and this sector to become more inclusive and more diverse at the same time.

But Andy, is there more you want to - I'm sure you've got more to say on this topic, Andy.

Andy Huthwaite – SSEN

Yeah, I'll just add to a couple of points that you raised there, Chris and thanks for the question, Maxine. So, our plan is absolutely, you know, designed with deliverability and the ability to change to different circumstances in mind.

You know, it's already supported by a strong ED2 readiness programme that we've already mobilised that within the business and that's about delivering on the efficiencies and the step change that we see that - that we've set out in the plan. I think specifically on deliverability, we've set an approach and we use this term - to touch the network efficiently. And that's really about looking for synergy opportunities, and we're trying to coordinate the delivery of works at a whole systems level across different investment drivers and we've got a work allocation model by grid supply point that will drive efficiency in our delivery and also minimise disruption both to the network and to customers through consolidation of physical works.

So, I think this will become increasingly more important as workload increases and I think also recognising the scale of the plan, we're developing longer term strategic relationships with our supply chain and that will give us the ability to scale our organisation so that we can have the right efficient team at the right time.

And just a point in terms of developing that relationship, I think giving some certainty to supply chain is important, which is why we advocate having a strong baseline so that we can get the buy in we need. We can ensure the efficiency and delivery and then collectively we can be more responsive to changes through the use of the uncertainty mechanisms.

Our approach – we've stress tested it with our supply chain and we've had it independently reviewed and it's been benchmarked against other world class capital delivery models and we also are currently active with the supply chain partners in further developing these proposals through our mobilisation programme.

I think, probably, just back to a point Chris made earlier, is we should think about our role as DSO as well in terms of not just building on our forecasting capabilities but including, you know, looking at the DFES, the use of data and analytics to obtain that best view possible that we can get of future requirements and also the deployment of flexibility which is going to be so central to our plans.

So, I think these are all important aspects that will allow us to schedule our work to deliver efficiently.

And I think, just maybe, on the last point on the uncertainty mechanisms - I think it's important that we get a really good, agile framework for the uncertainty mechanisms and through the settlement, because I think that also will be key to ensure that we can move quickly as things change.

Maxine Frerk – CEG

But your - so you're sort of saying that the supply chain wants certainty but in some sense that's the one thing you can't give them. You have a strong baseline, but the uncertainty - the uncertainty remains? Are they confident - are you confident that your supply chain could scale up significantly beyond the baseline if that was needed?

Andy Huthwaite – SSEN

Yes, and that's exactly the conversations we're having with the supply chain now, so hopefully with the additional funding that we've set out in the first two years to get ahead and, you know, and make sure that we are ready for decarbonisation.

Again, we've been sharing those proposals with the supply chain with the opportunity to have flexibility beyond that, so we're getting that buy in early and they can see the potential upside opportunity by working with us in the longer term through the uncertainty mechanism.

So, as I say, if that's agile enough, then we've got the support that we need and our supply chain are absolutely on board with that.

Chris Burchell – SSEN

I think, Maxine, the point you make there is so important because where we do have visibility and certainty, it is vital that that visibility is passed through the supply chain so there is an opportunity in time to gear up and scale up and ensure that we have the skills to deliver it. The balance between the base ask and what is uncertain, therefore, needs to be calibrated very, very carefully, because if we - if you don't take those known and certain costs into a visible pipeline for the supply chain, you have a very strong risk of costing a lot more later because you may not have the skills, you may not get the volume benefit, you may not get the aggregation benefit and that is a very foolish thing to do.

Maxine Frerk – CEG

Thank you.

And then another of Bob's points was around flexibility and certainly, you know, in the- in our CEG discussions, you know, we have heard a lot and are generally very reassured about your approach to flexibility, but there is a strong emphasis that gets placed on the use of flexible connections as the solution, which to some extent feels to us like, you know, that is - that is the old world. That's business as usual, and - just to kind of reiterate again, the kind of business case that you see, for flexibility more broadly and that balance between real flexibility markets, as it were, and tendering for that contract and the old-style flexible connections where customers don't necessarily have that much choice about the flexibility they offer.

Chris Burchell – SSEN

Yeah, Maxine, I think this is, again, that the balance that - time doesn't stand still for us to build flexibility markets from where we are, we need to make sure that we are accommodating and delivering against demand today, whilst building those flexibility markets as quickly as we can so that they can make the valid contribution that they inevitably need to make to deliver the Net Zero transition – Andy, is there more you want to say on that?

Martin Cave – Ofgem

Forgive me - I think we have to make the answer slightly more concise in order to allow the other stakeholders their views, so perhaps if you'd be very quick, Andy.

Andy Huthwaite – SSEN

Just two quick points then. Firstly, we're - we have a project, Local Energy Oxford, which we're really looking to try and facilitate some of those markets, so we're getting some excellent learning from that, and I think that'll bode us well going into ED2, in terms of how we will unlock some of that potential in the flexibility markets, particularly at a local level.

And I think the other point on flexible connections, I think that gives customers choice, you know, whether to fully access the market now and pay for it, or whether to - or whether to get connected quicker and cheaper, and then look to you know unlock full access later. So, I think, you know, we know the sort of - Access SCR's having a look at that, in terms of, you know, the impact it's having on the flexibility market and actually, whether, you know, different solutions in the future will replace that, but, of course, that needs a liquid flexible market to enable that.

So, yeah, you know, there is an opportunity that there could be further choice in the future if that liquid market comes into play and then the whole thing around flexible connections, could that still either be a choice or it could actually be removed from the market.

Maxine Frerk – CEG

Good, thank you, that's fine by me.

Martin Cave – Ofgem

I think it's now time for me to pass over to Steve who will orchestrate the questions that have come in on the chat and for other stakeholders, so over to you Steve.

Steve McMahon – Ofgem

Happy to do that, Martin. I don't know, Akshay - did you have anything first?

Akshay Kaul – Ofgem

Yeah, just – Chris, a couple of follow-ups on Maxine's line of questioning - you know, when we met UKPN they were telling us that their approach is to be relatively conservative with the baseline and then use the uncertainty mechanisms to flex upwards because they said that is the best way of protecting customer interests.

You're taking a markedly different approach, and I think it would be good if you could just justify why you think your approach is better than UKPN's, and secondly, Andy, you mentioned the point about the DSO, I think what assurances can you give customers that you are setting up your governance in such a way that you are genuinely able to make independent decisions between network and non-network solutions and to Maxine's point, not just go for the old-style flexible technologies, but really turbocharge the new technologies that are coming into the market?

Chris Burchell – SSEN

OK, thanks, Akshay. So, I'll pick up your first question and I'll hand to Andy to answer the second.

So, in terms of the baseline and uncertainty balance, as you say, I think at least one other DNO has taken a markedly different approach. For us, this is about transparency and clarity with our customers about the actual cost of Net Zero.

There is an argument - and a very clear argument, well documented, well understood, that actually if you – have a visible pipeline in being able to aggregate the volume and work that through the supply chain will deliver a more efficient outcome for customers today and for customers tomorrow rather than doing it piecemeal and sporadically, as you build up, as uncertainty kicks in. We have certainty of spend and visibility of spend into the first two years of ED2, which is why we have asked for more baseline for those two years against the scenarios that we've built.

But I think the transparency point for customers is quite important, Akshay, and you could almost liken it to buying an airline ticket. So, if the if the destination is Net Zero, our business plan says you can - you can buy a ticket with SSEN, to Net Zero and this is what it's going to cost you.

And we've got agility in the plan. We've built the agility, in the flexibility in, so that if things change then we can move things up and down as Clothilde has said, but other approaches - so yes, this is a destination to Net Zero. It looks like there's a price on it but we know some airlines, don't we, that - whereby actually, that isn't the price that gets you to the destination, because if you need to book a seat, you have to pay extra if you want to take some luggage, you have to pay extra.

These are hidden costs in uncertainty, by putting it that way so it looks great, but actually it's not transparent to customers. It's not honest with customers about what the cost of the journey to Net Zero is

actually going to cost us, and so I think there's a transparency and an honesty point, which I think is important because we have to build trust with our customers.

Customers have to be on board with this and our plan does that. It tells them this is the cost to get to Net Zero, this is the flexibility and agility you need to build flexibility markets to make sure we're not being a blocker to the transition, and we're delivering the connections when you need it, when you want it, upfront, and we can then drive efficiency through the supply chain and pass that benefit back to customers, which you can't do with the other approach.

Martin Cave – Ofgem

Briefly, Andy.

Andy Huthwaite – SSEN

Yeah, just on the point of DSO - look, we're very aware of the concern around conflicts of interest and making sure that there's no decision making bias, if I could call it that, so, you know, we already have mitigation measures in place around that, and we're very familiar with business separation - I think we're one of the first DNOs to already set up a DSO directorate as a separate directorate, we've already got things like education in the organisation and that's playing through all our businesses, but particularly around the DSO activity and what that actually means, so things like conflict of interest training and the need for neutrality in terms of some decision making.

We're going to be very transparent on our processes, we'll publish processes, outcomes from some of the flexibility contract arrangements that we're putting in place, and we're also introducing an independent audit on stakeholder governance board in ED2 and as well as that independent governance. We will be held to account through our flex providers forum and also we proposed DSO metrics which, again, we will report transparency against that and again, that will allow others to measure what we're doing and see the outcomes of the decisions that are being made and ultimately hold us to account in that regard.

Steve McMahon – Ofgem

OK, thanks - and so we'll go to Helen Stack from Centrica and then I think Maddie Brooks from Octopus.

Helen Stack – Centrica

Hi, so you've got some really good people working in connections but we've experienced some bottlenecks recently, I think due to lack of resourcing. So, what are you doing to make sure you have enough skilled connection staff ready to manage the expected increase in demand for connections you mentioned earlier, including the mass uptake of EVs and other LCTs?

Chris Burchell - SSEN

Yeah, thank you Helen. That's a great question. It's a question that's been racking my mind. I've been in this role for just over a year.

It was very clear to me that the demand growth that we're seeing in our connections business requires additional skills, additional resources. So, we've begun that. We've begun that this year, we have enhanced our Connections Team resource numbers significantly to both help the upfront process in terms of the design and quote phase, but also in terms of delivery as well. And we're looking in ED2 at how we can make delivery more efficient through a smarter way of delivering at a GSP level across all types of work. So we acknowledge the point, we're actively managing that now, and our workforce plans and skills plans for ED2 will build on that so that we're ready.

Andy Huthwaite – SSEN

I think, Chris, maybe if I just add a point to that one, one of the other areas that we're investing in is around self-serve. So we're looking to put automated quoting system in, particular for the high volume - high volume LV connections associated with LCT, so that should streamline the process, not just from a resource effort from our perspective, but actually make it easier and more attractive for customers to deal with that directly through our website, so that's part of the digitalisation investment that we're making into ED2 as well.

Steve McMahon – Ofgem

OK, is that OK, Helen?

Hopefully we can get Maddie, Maddie Brooks from Octopus.

Maddie Brooks – Octopus Energy

Hi, so I think there's already been a couple of questions similar to this theme, so I'll try and keep it shorter. But yeah, just wondering if you could kind of comment and unpack the five gigawatt flexibility target that you have in your business plan - just finding it quite difficult I guess to, kind of, compare that very high target with the very low forecast cost benefits that I think Robert had mentioned earlier. So, if you could just unpack that a little bit and provide some justification of how confident you are that that can be met.

Chris Burchell – SSEN

Andy, do you want to pick that one up?

Andy Huthwaite – SSEN

Yeah, thanks, Chris and thanks, Maddie, for the question. Yeah, I think as Chris said already, we - our flexibility benefits are based on, if you like, very well understood benefits that we can see we can deliver in ED2. I think the totality of all the benefits go beyond that but one of the - one of the key things that that we are seeing, and actually we've seen that reflected in our experience on Local Energy Oxford, is that the maturity of the market, particularly LV is just not quite there yet, and so we really need to see how we can work with everyone involved.

It's not just a DNO, we need suppliers to be able to step up and look at how they can provide those types of services to really unlock the potential of that market. So, it's probably untapped potential, I think, in comparison to what you've seen elsewhere - we're possibly rather conservative in our flexibility benefits, but I think that's just reflecting the wider opportunity that we see coming forward, but we haven't seen that mature yet, in terms of a really, liquid market in that respect, so I think collectively, DNOs and suppliers and others need to work together to really unlock that potential, and then I think we will see much more benefits coming through, particularly as a - as our, you know, future pathway increases and flexibility becomes more and more prevalent in the decarbonisation agenda.

Maddie Brooks – Octopus Energy

Yeah, I mean I guess, just wondering if you could – if there's anything more that you can say on the five gigawatt target that you have?

I understand the benefits - the cost benefits point, but is there anything more that you can unpack on that?

Andy Huthwaite – SSEN

Well, the only thing I would say on that is that is our target, I think - again, it's a bit of a view based on where we see the market and it could accelerate beyond that but I think we have been realistic in our proposals. I mean we do already have a pipeline of just about – I think it's about 2.2 gigawatts associated with flexibility - it's predominantly around flexible connections, but again, you know, we are seeing development of vehicle to grid and batteries, we've seen some of that come back through the procurement activity that we've done on LEO, so, again, I think that the flexibility services we see as an increasing market going forward, but as yet untapped, so it's very, very difficult to predict. You know, we didn't want to just predict big numbers for the sake of predicting big numbers, we're trying to give a realistic view of what we see possible based on the current market conditions.

Maddie Brooks – Octopus Energy

OK, so flexible connections are included in that - in that target.

Andy Huthwaite – SSEN

In the five gigawatts, yes, they're part of the mix.

Steve McMahon – Ofgem

OK, thanks Maddy. I think next we will come to counsellor Richard Clewer from Wiltshire Council and Chair of UK100's Countryside Climate Network. So hopefully we can get Richard up.

Richard Clewer – Wiltshire Council

Yes, good morning - Richard Clewer, leader of Wiltshire Council, chair of CCN.

Given the important role local government has in responding to vulnerable residents, the differences in local government settlement between Scotland and England and the lack of alignment between SSEN areas and local authority boundaries - where will SSEN be on strategic local government engagement by mid-2024 and how will both you and us know it's working?

I know you're really keen to engage with us. We're keen to engage with you, but it's not working particularly well at the moment and it would also flow into things that will, for example, businesses that want to remain in Wiltshire, trying to relocate, but being told they've got 2-3 year connection times and we don't have the right channels to engage with you to then help engage with them. How do we make this work better?

Chris Burchell – SSEN

Richard, thank you. This is such an important area and such an important question because we recognise that engagement with local authorities is absolutely central to our ability to deliver the transition effectively in the way that customers and communities want. We have very clear plans about how we wish to develop and improve our engagement with local authorities. We already try very hard as you thankfully acknowledge, but we think we can do better, we want to do more than that, as well. So Clothilde, perhaps you can colour in our approach here, please.

Clothilde Cantegreil – SSEN

Sure, thanks, Richard. So yeah, local authority engagement has been really key to our plan, but actually, even since the submission of our plan, we've been engaging across the piece.

I think we've engaged with you on a bilateral basis as well, and we've engaged with around, kind of, 40 local authorities, so really central to our plan and that engagement is baked in, in our business plan going

forward into ED2. We've dedicated resource of around seven people to engage with those local authorities, and that includes a number of topics, right?

So, a lot of it will be around our load plan - how we can better utilise our network, how we can better site existing infrastructure but also around vulnerability. We have a leading customer vulnerability mapping tool which we can use to, kind of, better understand how we can work together to support those customers in vulnerable circumstances.

So that's the baseline kind of proposal, I suppose, if you will, that we will be putting forward to you in ED2, it will also include data sharing, information sharing as well and all of that.

Now, above that, we're also proposing a consumer value proposition which will enable us to go further than just, you know, really good quality engagement by seconding some of our staff in to your local authorities and really making sure we can help build up capability so you're empowered to deliver on your own ambitions, and I think that's a - you know, a key theme that's come out of various reports from CCC and from others as well, and ultimately, it's a really big gap actually, and we think we have a really big role to play, so this isn't necessarily about us providing that support, you know, for ten/twenty/thirty years onward, it's actually about coming in, working with you and enabling you to deliver on your own ambitions.

We will have a whole systems team, that's what we're calling it, so there will be senior leadership, senior level buy-in and engagement to this.

We will be reporting on how we're performing. We've got a customer survey or whole systems survey, we're calling it - that we will be putting in place to help understand how we're performing both qualitatively and quantitatively.

We're also looking at other metrics as part of our DSO incentive proposal, which will look at how we're performing in terms of information sharing, for example, or forecasting.

I think overall as a package, we think it's really attractive to local authorities. As Chris said, we see local authorities as absolutely central to our plans going forward into ED2 and we really need to work together on this, otherwise we won't be delivering Net Zero.

Steve McMahon – Ofgem

Thank you, I think, Martin, I'll try and squeeze one more in - I think Andy Manning from Citizens Advice and then we'll wrap up for the first session, so hopefully we can get Andy.

Andy Manning – Citizens Advice

Thanks, thanks Steve. Hello all, so it's a relatively short question - so if this plan was accepted by Ofgem, what would you be saying to investors about the likelihood of financial outperformance?

Chris Burchell – SSEN

What a good question, Andy. This is the - there's no doubt this is a challenging plan. It's ambitious, it's what our customers have helped co-create with us and said that they want, but it's stretching and it's challenging. The efficiency- because we recognise that the activity levels that we're asking for and the increase in expenditure - it is an ask on customers and so we have added a significant efficiency challenge on ourselves to improve the unit rate and the ongoing efficiency. So, I think it is a testing, challenging plan. I'll be delighted if we deliver this plan.

Andy Manning – Citizens Advice

So you're not expecting to outperform currently?

Chris Burchell – SSEN

I think, great DNOs that can outperform their plans should get some reward for that, but this is a challenging plan for us to deliver.

Steve McMahon – Ofgem

Can I just follow up on that, Chris, because I think on your statement - I think it was the SSE statement from Tuesday this week, around the sale of your SGN stake - I think you explicitly said in that you're aiming to deliver strong shareholder returns and attractive dividend growth from your network businesses. So, what should we read into that from your ED2 plan? Are you creating a buffer that delivers that outperformance? Or are we misreading?

Chris Burchell – SSEN

No, there's no buffer Steve, in this plan. This is a tough stretching plan, and it's right that it's tough and it's stretching because that's what customers expect.

We understand our role as a DNO, we understand as a monopoly provider of network services, it's important that we deliver a plan that is tough and challenging but delivers what our customers want and need. We can see we need to do more activity in ED2 in order to deliver Net Zero for our customers and make sure the network is there when they want - when they want it to connect their electric vehicles, their heat pumps and any other electrification LCT that we're looking at so. So we've got to - we've got to deliver this, there is no buffer in it at all. I think the – distribution, it is - it is a challenging environment, it's a challenging business that - when you look ahead, but it's exciting and it's a great opportunity for us. So there is growth, but we have to deliver that growth and we have to deliver that growth efficiently. That's - this is not an easy plan.

Steve McMahon – Ofgem

But you are telling your investors that you are confident that you can outperform this.

Chris Burchell – SSEN

I don't think that's what we've said.

Steve McMahon – Ofgem

Well, it says strong dividends and looking to outperform so I don't know how else we should read it.

Chris Burchell – SSEN

I think if we do a good job then we should have a - we should have a return for that. I don't think any customer would begrudge us that. If we're doing a good job for them and delivering our outputs, there should be a return for that. It should be a reasonable return and a fair one.

Steve McMahon – Ofgem

OK, OK - without any more, Martin, I'll hand back to you.

Martin Cave – Ofgem

OK, so we're now going to have a very, very short 5 minute break - 3 or 4 minutes, ideally, because we are running a bit behind time and then we come back up with questions on the second theme, delivering world class services and ensuring nobody is left behind. So, see you in three or four minutes.

BREAK

Martin Cave – Ofgem

Excellent, welcome back.

I'm now going to hand over to Tracy Matthews of the Customer Engagement Group who's going to ask some questions on the second theme.

Tracey Matthews – CEG

Thank you, Martin and could I start by putting some focus on vulnerable customers?

I think there are a number of services that you've outlined in the plan where you are expecting to engage heavily with either partners or third parties - and what steps have you actually put in place to ensure that those third parties are not just delivering the services, but actually the standard of the service? And that, more importantly, the benefits to the customers themselves are actually being recognised and understood?

Chris Burchell – SSEN

Thank you, Tracey. Yes - I mean this - this is a very important question because, as you say, we are scaling up significantly and proposing to scale up significantly in ED2.

So it's really important that in scaling that up we get it right. We get it right for customers and the outcomes are right. So, we have thought very carefully about this. There's a very clear framework.

Clothilde, perhaps you want to take through - take us through the planning structure that we've got to make sure that we're delivering value for money for customers, but also value for the customers that we're helping.

Clothilde Cantegreil – SSEN

Yeah, thank you, Chris. Thank you, Tracey. So yeah, obviously partnerships will be really key to developing our vulnerability proposals going forward into ED2, specifically on the fuel poverty side. We're actually building on what we're doing in ED1 to date, so we have a mature partnership strategy already in place in ED1, and in ED2 we'll be building on that, so we'll be building on existing partnerships, identifying new ones, but also looking to build longer term partnerships as well.

We do have a partnership framework in place in ED1 which will continue into ED2 with each of our partners and that's got really clear targets and KPIs to ensure the best outcome for customers. We measure the outcomes and benefits already, we report on that, for example, in SECV, we use social return on investment and that will be something that we continue doing, reporting against our vulnerability strategy that we have in place in ED2.

We have identified triggers for intervention so that actually gives us the ability to go in and stop an activity if it's not actually delivering that benefit or change the scope of that activity and we have had some examples of doing that in ED1, most recently in the context of COVID-19. So we have a Home and Well project which actually won an award earlier this week at Utility Week and was designed to help those long term hospital patients leave hospital and go into a safe environment at home and be able to stay at home, and actually originally that was going to be delivered at the hospital, but we were able to change our approach very flexibly, working with our partners to deliver that, actually in an at-home context. So, lots of really good examples of how we're improving the way that we do partnerships, but also measuring benefits and changing our approach as required. And as I said, we'll report on this transparently on an annual basis, so I think we're confident overall that we've got the right approach.

As you said, there is a step up - we've actually engaged with a lot of our partners already to make sure that they're confident that they can deliver that, and so we think we're in a really good position for ED2.

Tracey Matthews – CEG

And I think, you - you just, sort of, noted the point there about the transparency and I think it would be useful if we could understand how you are actually going to make that transparent reporting available because I think there are -and you said yourself, I think in the introduction, Chris - that this is an area of society that is going to actually require a significantly increased intervention through the next period and therefore helping people to understand what vulnerability they could be supported with - it is equally important.

Clothilde Cantegreil – SSEN

Yeah, I think that's a really good point, Tracey, and I think as we're working up our plans for ED2, I think we can work with our partners and perhaps with the CEG, as well, in its enduring role to come up with a really good format for reporting and for making that information available to all our stakeholders and all our customers who are interested in it. So, yes.

Tracey Matthews – CEG

OK, could I just pick up on another point, I think, that you made, Chris, at the beginning, where you do recognise that the world has changed fairly significantly, even from the 1st of December when the plan was put in and you also made significant commitment to a programme of continuous engagement, and I think it would be interesting to understand, from that continuous engagement feedback, since the 1st of December – what are you sensing from your stakeholders and customers, may have changed, potentially, that you might reasonably want to look at revisiting to some extent, the balance of the priorities in that plan? Is there any intelligence from that engagement that are - is making you look at those priorities now again?

Chris Burchell – SSEN

Yeah, no - good question. I think I said in my opening presentation, Tracey, that the plan that we've built is agile in addressing some of these areas so, you know, we talk about ongoing engagement - the plan is the product of significant engagement, as you know, and actually, you know, thank you also to the CEG for the huge contribution the CEG has made, both in challenging our plan and testing our plan and giving us a better result - giving us a better plan at the end of it.

But that engagement is not - doesn't stop with the submission of the plan, it doesn't stop, it's a philosophy, it's a mindset that we now have in SSEN, and we have therefore been continuing with our engagement since December. We've engaged, we talked earlier around local authority, engagement, and some of the lessons and thoughts that we've had there. We've had significant events with the storms, for example, we've been engaging with communities that have been affected by storms to understand their experience of that and how that affects things and we've also continued to engage around the cost of living challenge. Indeed, I was part of a panel myself, with partners and charities a few weeks ago looking at fuel poverty programmes and what we can learn from that. So, what change does that make for us, was the direct question, you ask?

For me, I think it almost - it doesn't change the content of the plan, Tracey, but what it does, it almost sharpens the contrast, and it sharpens the weight of emphasis, so I think it gives us real confidence that our approach on vulnerability and resilience is appropriate, and it's right and there's a conversation about should it go further, but I know there's an ongoing debate around that.

I think, certainly we've heard that our personal resilience plan CVP - commands very strong support. I think that is seen as very needed and would be welcome and fundamentally, Net Zero remains a priority. I think there was some question around - would people start to abandon Net Zero on the basis of cost of living and can we afford all of this?

But that's not what we're hearing. We're hearing that we need to convert, we need to -we need to electrify, we need to have less reliance on hydrocarbons, and people want to see that, and that's why they want to see it done in the right way, but protecting customers.

Clothilde, is there anything more you want to add on that?

Clothilde Cantegreil – SSEN

No, I think you've covered it all, Chris, thanks.

Martin Cave - Ofgem

OK, I'll hand over to Roger Witcomb from Ofgem's Challenge Group.

Roger Witcomb – Challenge Group

OK thanks, Martin, quick one on the vulnerability strategy which in general we think is fine, it's a question about deliverability and validation, which is, again, probably not terribly surprising.

You said that, well, you've said you've increased the number of households that you've supported in fuel poverty from whatever it was - just 34, five years ago to 3,762 in 2021, but you've got a target of reaching 10,000 a year by ED2 so, two questions, really.

One - what trials have you done to establish that that's the right number and that it is effective?

And I guess the second question is - and it's a straightforward question - how many do you think you're going to reach this year on your way to 10,000?

Chris Burchell – SSEN

Yeah, thank you, Roger.

It's a fair question - this is a ramping up activity and we're ambitious here as well, so some confidence around deliverability is a perfectly reasonable question to ask. We're very confident about this and our approach with partners is growing, so Clothilde, perhaps you can shed a bit more light.

Clothilde Cantegreil – SSEN

Yeah, absolutely. So yeah - as you highlighted, big step up for us and we think it's absolutely the right thing to do.

You know, we have, I think, 28% of our households in fuel poverty or customers in fuel poverty in the north areas so, you know, we've got a really big role, really important role to play here. It is a big step up, but actually if you look at what we're doing now in ED1, we are expecting to reach that 10,000 number by 2023. I believe we're around the 2000 right now, so last year in ED1 we will be delivering 10,000, which puts us in a really good position in terms of reaching that 50,000 target and indeed exceeding it, right? Because we don't have to stop once we've reached 50,000.

If we're able to provide more support, greater support, and the other aspect I mentioned already in response to Tracey's question is, we have been engaging with our partners already, so we're not waiting for day one to engage and understand whether or not we can deliver this, we have that confidence now from our partners and we continue to engage with them. We've engaged with them a lot, to go back to Tracey's point as well, following kind of the, you know, recent events and the cost of living crisis to make sure we are targeting our activities appropriately, you know, designing a fuel poverty programme that will deliver the maximum impact, so I think we're in a really good place, now in ED1 and we'll definitely be there to be able to start ED2 with 10,000 a year and potentially deliver more benefits to more customers.

Roger Witcomb – Challenge Group

OK yeah, I mean just a corollary to that. I mean what- what is it that makes you feel that you're the right people to deliver this sort of support given where you sit in the supply chain, and you only really see them at times of power cuts.

Clothilde Cantegreil – SSEN

Yeah, I'll just jump in on this one Chris, then you can add anything you want at the end.

I mean, it's a really interesting space, isn't it? And I think what we've seen from the feedback that we've received, and even the conversations we've been having as part of these open hearings, is on the one hand, there is a bit of a call for us to do more – more to support those customers, more in the context of the cost of living crisis, but I suppose on the other hand there is a question mark around - well, are you the right, you know - are you right - the right entity to deliver? I think there's a couple of things I'd say to that. In terms of how we've set this up, we've engaged heavily with our stakeholders and our customers and our partners to test this and understand whether we were delivering the right level of support.

We've obviously used Ofgem's minimum requirements, business plan, guidance, etc. as a guide as to what kind of activities we should be doing, and broadly, we're really comfortable that we have struck the right balance here. I don't know, Chris, if there's anything else to add on that one.

Chris Burchell – SSEN

No, I think, I mean – it's a reasonable question and it's an ongoing debate, I think, on the one hand I hear people encouraging us to do more - on the other, I hear people saying are you really the right people to do this? So I think it's a question that perhaps is broader than something we can answer alone, Roger, and I think it's probably a conversation we need to have, particularly if this needs to be done on a broader scale, you know, more generally, but in the absence of that clarity, I think it's important that something is done and we tested that with our customers, as Clothilde says and it's checked out very positively and customers do support us taking this role at this time.

Clothilde Cantegreil – SSEN

Also, sorry - to be very clear, you know, it is all about partnerships. It's about us utilising all the touch points we have with our 3.8 million customers to deliver those benefits to them.

It's not necessarily about us taking on a new role or displacing, I suppose, the support that others can give, so really that partnership approach is very key here.

Roger Witcomb – Challenge Group

Thanks a lot, yes – well, for the avoidance of doubt, we certainly agree that something needs to be done by someone. That's me, Martin, thanks.

Martin Cave – Ofgem

OK, well, I'll pass back to Steve, who will now orchestrate the questions, both on this theme and any that may be left over from previous theme.

Steve McMahon – Ofgem

OK, I'll just start by reflecting to Akshay and Myriam, if they've got any questions just from the Ofgem perspective first.

Akshay Kaul – Ofgem

Yeah, Chris - can I just come in on the - you mentioned Storm Arwen and obviously that and then the subsequent storms came in after you had submitted your spending plan.

Based on the thinking you've done since, I mean, can you tell us what - what are you now planning to spend on storm resilience in the ED2 period, and what specific improvements can customers expect if these storms recur, in terms of the outcomes for them?

Chris Burchell – SSEN

Yeah, thank you, Akshay.

Unsurprisingly, our customers are asking us these questions too, and it's right that they get a good answer. So, look, I think - let's start by saying we were the only DNO to suffer the full force of all seven named storms this winter, and I'm assuming that we're not going to get any more at this point in time - fingers crossed, touch wood - but we're the only DNO to face all of them, full force of them all, and we've learned an awful lot from that. We've learned a lot in terms of how to manage the incidents, we've learned a lot in terms of how to engage communities, how to engage customers, how to communicate. We thought very hard around how we manage communications, restoration times, information welfare facilities and we've worked with communities and customers progressively, I should say, from Arwen, to improve what we do and improve our procedures and processes.

So already, I would say, but even before we get to ED2 Akshay, we're already better placed to respond to these events and we have learned a lot already in terms of what customers are looking for and how we can coordinate with local resilience partners and forums. I think in terms of looking ahead, our plan, as you can see, was already well focused on strategic resilience, was well focused on reliability. We have put in additional spend around - targeted spend around resilience, and indeed – in fact, I think I recall a comment - when we first submitted our draft plan in summer last year, with someone saying, you seem to have put a big emphasis on resilience in your plan. Why is that?

Akshay Kaul – Ofgem

Chris, can I just interrupt? I mean it's because the question is - can you not accelerate that in the ED1 period given that your underspending your allowances in some respects? Why are you waiting until ED2 to ramp up that expense?

Chris Burchell – SSEN

Akshay, we're not - we're not waiting, we're not waiting at all. We've implemented LiDAR technology, both to inform our ED2 plan and also inform our activities in ED1, so the LiDAR technology is giving us some excellent information around how we should target risk around tree cutting and clearance of networks so that our network is more resilient to poor weather so we're not hanging around and thinking that we've got to wait for ED2 to get started on this, this matters for us.

We've commissioned some work recently as well, post submission of our business plan, but with a consultancy to just look at resilience options and we're starting with the North East of Scotland, looking at the way we've managed our assets, looking at how we've approached our profiles, our expenditure, the balance network resilience and community resilience.

What is the right - most efficient, beneficial way for customers to resolve those thoughts, so we're not hanging around for ED2 to improve resilience.

Akshay Kaul – Ofgem

And what specific improvements, Chris, can you promise customers if storms like that recur in future in exchange for the investment that you're putting in?

Chris Burchell – SSEN

I think it depends on the nature of the storms, Akshay, because these storms were extreme, we saw record wind speeds in the North East of Scotland, we saw record wind speeds in the South of England. You know, these are quite unusual and they caused unprecedented levels of damage. I think we responded well to those storms, we got customers back as quickly as we could, we communicated well with them, we looked after welfare well - we will continue to do that. If we have those extreme events again, then I think we will still see damage to the network. I don't think, I mean - it's a conversation, a broader conversation we should have and have together as a sector with communities around the level of resilience that can reasonably be expected and afforded for those extreme events - ordinary events, storms, I think, you know, within the normal parameters of weather are a different question. If we're talking about extreme events like those storms, then, we will continue to expect to see some damage from those as we go forward, but what we can assure customers is that we are taking a very targeted, focused approach on improving reliability where we can.

Andy Huthwaite – SSEN

If I could maybe just add a point to that, Chris - we're trialling our resilience – there's a service innovation project currently and that's really, you know, looking at outage conditions, both planned and unplanned where we can look to deploy, sort of, flexibility and market solutions to support the network, particularly remote communities, so we're starting to see some of the benefits of those trials, and I think that's something that will become increasingly important, so again, that's an area that we really want to build on and try and bring more to the table, particularly in those remote areas that were affected by the storm events.

Akshay Kaul - Ofgem

I'm not hearing any specific improvements being committed to yet, but Steve, I'll hand back to you.

Myriam Madden - Ofgem

Yeah, Steve – so, just struck by this - was the significant scale up, obviously in expenditure, but activity generally and staffing and I wonder, can SSEN and maybe just provide some insight in terms of cost control going forward?

So, of course we see overspend from ED1, but, you know, when you've got that significant shift in the organisation capacity, presumably you're also thinking about your own internal control framework, and maybe you could describe some of the changes you anticipate there?

Chris Burchell – SSEN

Yeah, thanks Myriam. I think it's probably worth separating - the position we have in ED1 for expenditure is the whole story in itself. We've seen some significant overspend in some specific categories which have caused the overall exceedance of our totex allowance. We can certainly go into that if you wish?

Myriam Madden – Ofgem

More future looking, I think - learning from that.

Chris Burchell – SSEN

Exactly, and that's what I thought you wanted to get to. So, clearly for those things, that's concerning and we've tried to address those points in our ED2 business plan. I think, in terms of ordinary governance and controls, those are actually - those are established, and they're effective in in ED1, but we recognise the

scaling up challenge does require a different approach. It requires a different approach both to deliver efficiency for customers, but also in terms of overall control for us. So, we are working already, we have a mobilisation plan for ED2, a programme, a change programme that's already established within SSEN, looking at the key areas of process and delivery that we will need to - we want to enhance, in order to protect customers interests and deliverability of the ED2 business plan. That includes, for example, a workstream around capital delivery and looking end to end at that process. How we - what skills we need, how we can grow those skills, what changes to our governance approach and what methods we may want to evolve in order to give best value to customers. So, that that programme exists, it covers working patterns, it covers people skills, capital delivery, asset management and more.

Myriam Madden – Ofgem

And what would you describe as maybe one of the biggest changes? One of the biggest improvements?

Chris Burchell - SSEN

I think the most - the biggest change from a delivery point of view, is the way we want to organise the delivery of our work.

So, we want to look across our core resilience spend, our connection spend, demand spend as well as strategic investment, and look to coordinate that - and the load spend - look to coordinate that so that we can issue that to the supply chain in a more efficient way with clear visibility and passing those benefits back through to customers so that we can improve our unit rates and delivery.

Steve McMahon – Ofgem

Chris, if I can just maybe turn to a reliability and the quality of service there. If you look at customer minutes lost, that you've got quite high levels, very high levels of customer minutes lost in both your regions – despite, I think you've said in your presentation at the start, very different characteristics. So, I can sort of get it for hydro, less so for the southern region. What is it that makes you so different down there compared to some of your neighbouring DNOs?

Chris Burchell – SSEN

Yeah, I think – essentially, in ED1 we've broadly met our targets around reliability and performance, Steve. I think, you know, our customers tell us that they would like us to go further and we would like to go further too, we recognise that there is more we can do in the South and we're not standing by for that, we recognise that. We have initiated a piece of work – a project - we call it Project Impact internally, but that's been initiated to drive and accelerate improvements in performance, particularly in the South - but it does affect the north as well, but particularly in the South, so it's looking at how we can accelerate more automation, how we can look at reliability in a targeted way, and that project is intended to drive reliability up for customers as we stand now because we recognise that there's more we can do.

Steve McMahon – Ofgem

But what would you say, Chris, what's prevented you from doing that before now? I mean, a lot of other DNOs have invested in automation through ED1, so is it just about having more money in ED2 or something else that's been missing?

Chris Burchell – SSEN

No, sorry - let me not leave the impression that we're just starting to think about automation now, Steve, automation has - there's been a program of automation in the South for a few years, certainly before I joined. What I'm saying now is I think we recognise that we can go further, faster so we are putting more

effort into that as we speak because we want to make sure that as we build the network forward and we - and it develops into smart grids that it is reliable for people. It has to be. That's what customers want, that's what they're asking for. So, we know we can do more now and we're doing that now.

Steve McMahon – Ofgem

OK, so what would you say were the reforms – what are the key reforms that you're bringing in ED2 to make that happen?

Chris Burchell – SSEN

In terms of - specifically in terms of reliability?

Steve McMahon – Ofgem

Yes, so what are the things that's going to drive that if you've got - I mean, if you look down to this, I think we had it from - I think it was maybe from Centrica, the long lead on connection times, we've got the poorer reliability, relative - yeah, I take that - relative to the other DNOs, not necessarily, but purely in absolute terms against the targets. So, what is it that needs to change in your southern region, in particular, to drive this higher performance?

Chris Burchell - SSEN

Well, we referred to one of the problems previously, which is, we have a significant and increasing failure rate around some of our LV underground cables, and that's predominantly affecting the South. If you look at the age when they were installed, the vast majority of them were in the 1950s and 1960s and we're seeing failure rates occurring with those. That's why the plan that we have put forward for ED2 is data driven, it's rational and it's justified on an engineering basis to say - if we want to tackle this, if we want to address what customers are asking for, which is delivering a more reliable - world class reliable network, then we need to tackle these problems and we need to address them so, that, I mean- Fundamentally, it's about fixing faults on the network, reducing risk on the network and our plan clearly is data driven and risk driven to remove risk from the network, and then it's about how you respond. So, continuing to deliver automation schemes and being smart around how we respond to the network to improve both the instances of interruption, but also how we respond to those interruptions when they occur.

Steve McMahon - Ofgem

OK, I'm conscious we don't have a huge amount of questions at the side, so I'll come to, I think, Andy Manning has got one again on vulnerability.

So, I'll come to Andy and then maybe there's a couple of questions related to the environment that we'll look to pick up.

Andy Manning – Citizens Advice

Thanks, Steve. So yes, turning to vulnerability – first, thanks for your answers about whether the network is best placed, I thought they were very well considered and very helpful in the discussion. Moving on to a different angle of that about where the money comes from. So, did you consider using more shareholder funding to support vulnerable customers instead of eventually, bills, which means that other customers are funding these activities. So how do you decide on the right balance?

Clothilde Cantegreil – SSEN

I'm happy to kick off on this one, Chris.

So, yes - we have and we have included a powering communities to Net Zero fund in our business plan. It actually builds on the success of a similar fund we've got in place at the moment in RIIO ED1, which we've seen deliver, you know, considerable value for our community, so really positive experience, we're keen to keep that going.

In terms of the level, we actually, in our draft plan, had a lower level of funding associated with that fund, so we were looking at £1.2 million across the period.

We've doubled that, actually, in response directly to customer feedback, stakeholder feedback, feedback from our partners, and also looking to extend the scope to, you know, to cover not just LCTS, but also looking at local community resilience projects, recognising the benefits that that can drive in terms of climate change but also storm response etc.

So very much an approach of building on the success of ED1, expanding on the funding that we proposed originally in the plan in response to direct stakeholder feedback.

We've tested that, of course, and we've tested that alongside the proposals that we put in our consumer vulnerability strategy, so those are the proposals that will be funded through our price controls or through business plan and overall we think we've achieved the right balance.

Chris, anything else to add on that one?

Chris Burchell - SSEN

No, no, you've covered it, Clothilde.

Andy Manning – Citizens Advice

Are you concerned that in this - in these testing times that there'll be customers who don't benefit from these initiatives, but are paying for it, having their bills increased? So, what your thoughts on that?

Clothilde Cantegreil – SSEN

So again, that is something that we've tested with stakeholders, with customers, so when we test things we don't just test with, you know, those customers or those stakeholders that will benefit from the support and I think there's been a really big - a general sense of support for that, and actually that is the right thing to do.

I mean, if you look at the scope of our vulnerability strategy, it's - I think it's £13 million overall excluding the CVP and actually, you know, compared to, kind of, other areas of our plan, actually it's a sort of limited impact in terms of the bill impact.

What I wanted to add, actually, on the community resilience and powering communities to Net Zero fund, in terms of maximising the impact of that, it's not just for individual customers or individual stakeholders, it's really looking at funding or providing seed funding to community organisations and really maximising the impact of different funding streams. So, leveraging that funding so that we can deliver greater benefits across the piece through our shareholder funded programme.

Andy Manning – Citizens Advice

Thanks Clothilde, thanks Chris.

Steve McMahon – Ofgem

OK, thanks Andy. I think we're going to go to Cara Naden next. I think, Cara, if I'm not mistaken, I think you're at South Somerset District Council, but you can correct me if I'm wrong in that. I think you've had a couple of questions on the chat.

Cara Naden –South Somerset District Council

Yes, thank you, I do work for South Somerset District Council, which is one of the constrained areas being able to connect to the grid, but I'm also a member of Somerset Community Energy Network, of which we're very fortunate in Somerset, across the county that there are a lot of us actively working with our communities and installing renewable energy technologies to help decarbonise the grid, but it's quite concerning that there are still connections that are not viable due to the delay in improving and reinforcing those networks, but also the exceptional costs that it costs community energy projects to be able to connect, and it's great that there is some funding to, you know, potentially support some communities, but whether that would actually impact on making those connections more affordable.

But also, as we're seeing - and I know, maybe, it's something that Ofgem needs to look at - is how can we prioritise decarbonising connections rather than supporting fossil fuel connections?

So sadly, we've got quite a few gas peaker plants where they're still going ahead now where the increasing cost is yet to be looked at, but it does mean it's pushing community energy, renewable accessibility further down the line at a time when we really need to be promoting and supporting that, so I just would like to hear from SSEN what you will be doing to, kind of, address this, please?

Chris Burchell - SSEN

Cara, yes, it's a - it's an important area and we're really clear that community participation in the energy transition is vital.

We're really clear because we want to - I mean, one of our customer value propositions is to help stimulate community involvement in flexibility and transition as well. So, we think that needs to be stimulated, we think that needs to be enhanced because I think otherwise, you know, it could be left just to big players, but we know that community energy groups have a big role to play. We know that because we've been working with them as part of our Project Leo in Oxford, where the low carbon hub organises community engagement and participation in the smart grid that we've created there, so we're very supportive of it.

In terms of, sort of, the policy aspects around that, I guess - that's not a question I can answer, but in terms of what we can do to enable - clearly, engagement with communities, is something that we will be prioritising. Andy - do you want to say more?

Andy Huthwaite – SSEN

Yeah, well - probably just to add, I think there's two things I would say, one - there are things that we can do through engagement, you know, for example, we've done some challenging things in Orkney where we've got quite a lot of community schemes, and so we'll kind of proactively used ANM arrangements or CMZ arrangements to try and bring parties together and either do a bit of sharing - and we're trying to promote some peer-to-peer trading around that which opens up opportunities for people like community energy schemes to at least participate and so that's one thing and we're trying some similar things in the South, at our Southwest Active Network Management area - I can't remember if your particular area comes into that, but there are things that we can do in congested areas that will allow participants to engage, and if we can corral people together we can try and facilitate some trading arrangements around that that would allow, you know, community schemes to come forward, so that's probably one thing. The other thing I would say, and this is - I think you kind of alluded to in your question - there is a question here about whether we can do something different for low carbon technologies going forward, and I think that's a wider question that needs to be had with Ofgem - we are obviously obliged to treat everyone on a fair and equitable basis and it's very difficult for us to do anything other than make sure that we that we follow those obligations but we're certainly happy to participate in any way in the debate or discussion around that.

Chris Burchell - SSEN

I think what I would say, Cara, is if there's some specific things that we can help with now, I'd be more than happy to arrange some engagement outside of this session just to see if we - if there's things that we can explore with you.

Cara Naden – South Somerset District Council

Thank you - can I ask my other two questions, really quickly?

So, I also wanted to ask about – so, our council and many around Somerset have also declared ecological emergencies, so it's really important - about supporting trees in existence and obviously replacement.

Do you have a biodiversity action plan in order to preserve and enhance biodiversity in the works that you do to make sure that you're not removing more than you're putting back in - I'd like to know?

Chris Burchell - SSEN

So, the short answer is absolutely, we do. Absolutely we do. We completely recognise that within our environmental action plan. Tree cutting is a big activity that we undertake, but afforestation is a key part, biodiversity net gain is a key part – Clothilde, do you want to explain more?

Clothilde Cantegreil – SSEN

Yeah, absolutely. So, this is actually something that we talked about quite a lot when developing our business plan – the link between tree cutting and, actually, the environmental aspect of that.

We mentioned LiDAR as a technology a few times already, and what we're trying to do is really understand better what kind of trees are affecting our network or close to our network, what kind of species they are, and we're looking to build a, kind of, a biodiversity databank which will help inform our decision making in this space -that's kind of the first, I suppose, the first pillar.

The second pillar is around biodiversity initiatives directly in our plan, we've got £26 million included in our Environmental Action plan, and we're looking at nature-based solutions, so we're looking at woodland restoration, but also peatland restoration, and that's something that we've, you know, we feel very strongly about it, we think we're one of the only DNOs to really take that nature-based approach, and we think it's the right thing to do, and I suppose the first thing is - going back to tree cutting - first of all, we don't always cut trees all together, so it's not always about fully getting rid of trees but what I would say is that we've been working with our communities as well to understand how we can better deal with those tree cuttings and deal with them in a way that doesn't actually create negative impact on the environment, so I think those three things for us are really key – a key theme for us going forward as well, biodiversity.

Cara Naden - South Somerset District Council

Thank you, and my final question is about - have you looked at the risk factor of overheating in the summer as part of what's happening in climate change?

And I guess that can also link in what you just said - are you joining up with, you know, natural solutions to help mitigate against that, but also bearing in mind that sadly, maybe that this country starts looking at cooling systems in the summer and is that being projected on your plans? Thank you.

Clothilde Cantegreil – SSEN

So, in terms of the question around risks - climate risks, actually, heat - the impact of heat on our network in terms of lines sagging, but also in terms of those cables that my colleagues talked about earlier is absolutely one of the risk factors that we've identified, and actually one of the reasons why we've got this programme in place to replace those cables, so - very much a factor for us.

And I don't know if anybody else wanted to pick up on the, kind of, the cooling kind of point Andy or Chris?

Andy Huthwaite – SSEN

Yeah, I'll just say that - yeah, air conditioning and potential requirements for that are built in as part of the DFES, the future energy scenario considerations. So, it is factored in, in the thinking going forward.

Cara Naden - South Somerset District Council

Thank you and sorry - whether you would be looking to support energy efficiency improvements that help, because if we do retrofit across our communities, a) to help reduce that demand, but also in doing improvements to their home fabric means that we will be able to stabilise those homes blasted through those swinging temperatures - is that something that some of your funding might be able to support?

Clothilde Cantegreil - SSEN

Yeah, I can give a quick overview. We actually do quite a bit on energy efficiency already and we've had some really successful programmes, our SAVE innovation project, for example, in the South in ED1 that we're looking to build up on in ED2, so if you look at our customer vulnerability strategy, it does have some energy efficiency support built in there, but we're also proposing a CVP, so that's one of those proposals that really goes above and beyond what we would do as standard to look at where we can deploy energy efficiency on our network to a) reduce the impact on the network of peak demand, so to smooth some of those peaks and reduce costs, but also actually target those areas that are in greater need, so using our customer vulnerability mapping tool to identify opportunities and identify where we can support those who need it the most, through those energy efficiency deployment measures.

And as I said, we do have a really good track record of that in ED1 for our SAVE innovation project, and we're really looking to build and expand on that because we think there's real benefits, both in terms of the network benefits it will deliver, but also in terms of the benefits to those who need it the most in terms of you know, lower bills, etc.

Steve McMahon – Ofgem

OK thanks, Cara - thanks, Clothilde. Martin, I'll just add one more from Akshay - a brief question and a brief response and then I'll hand back to Mark just to close up.

Akshay Kaul – Ofgem

Chris, you said in your presentation that you want to bring down worst served customers by 75% and we heard earlier this week from ENWL that they want to take it right down to zero.

Why can't you guys take your worst served customers down to zero?

Chris Burchell – SSEN

Well, we could, Akshay, of course, and that is something that that we considered very carefully. We've applied a very robust cost benefit analysis to this.

I'd say we've prioritised by vulnerability and scale, but there is a law of diminishing returns and the nature of some of our network - and particularly if you look at the cost allocated to Scotland to improve worst served customers - proportionately the marginal cost for improvement on long radial networks for low numbers of customers is very high, as an assessment, so that may not pass the traditional cost benefit analysis.

We'd welcome discussion on that if it's deemed we should be going further on that, but our assessment is that - and the assessment that we've tested with customers, in terms of - is this the right calibration? Have we got this to the right level? - has been - has come back as positive and we've assessed it robustly. Customers support the level that we've achieved or that we're proposing, mainly because of the law of diminishing returns and the very difficult nature and the high-cost nature of going down to zero, relative to the benefit.

Clothilde Cantegreil – SSEN

The other thing I would add, just very briefly, Akshay, when we look at worst served customers, we also triangulate that with vulnerability data.

So, when we prioritise our schemes for worst served customers, we're looking at how we can also improve services for those in vulnerable circumstances. I think that's a really important angle, as well, to add here.

Chris Burchell – SSEN

And also, Akshay, even those, you know, the 25%, if you like, there will be benefits for them in terms of the rest of the ED2 plan.

Our investment in resilience, our investment in assets will benefit them so it's not as if there is nothing, no hope for those customers there. There is a significant amount of benefit in the plan for all our customers, but the worst served piece is, as you say, specific - a specific agenda.

Steve McMahon – Ofgem

OK, thanks – Martin, I'll hand back to you just for the closing remarks.

Martin Cave – Ofgem

Thank you.

OK, so that that brings us to the end of this hearing.

As I think was noted in the beginning - if you've submitted questions in today's live chat that didn't get tabled, we'll work with SSEN in to consider the best means of responding to those questions.

As you know, this hearing is being recorded so that after all the open hearings are completed, we'll publish transcripts on our website and we will, of course, consider today's discussion very carefully ahead of our draft determination in the summer.

This is the last of six hearings held over the past two weeks.

Our CEO and I have shared the chairing but I know that that some people have attended many more than we have and in some cases all of them, and that includes many of my Ofgem colleagues. It includes our own external Challenge Group, company people have come along in large numbers - but above all, we're grateful to the NGO's and representative of customers who come along and added so much to this process.

So, thank you all very much over this two week period and now I hope you will have a good weekend.

Thank you.

Unanswered questions

1. **Myriam Madden, GEMA: Interested to hear more about the rationale behind the split between referrals vs. in-depth support for fuel poverty households.**

We will support at least 50,000 households with fuel poverty measures throughout RIIO-ED2. This will provide 17,500 households with in-depth support and we will support a further 32,500 through fuel poverty referrals.

The split between in-depth support and fuel poverty referrals is designed to strike the right balance between maximising our reach and providing targeted and in-depth support to those who need it the most. We assessed our ED1 performance in both referrals and outreach and used this to determine the right level of intervention in RIIO-ED2. Referrals to fuel poverty partners are not costly and will allow a larger number of customers to obtain support such as through energy efficiency advice, benefits entitlement checks, help understanding their bills or heating controls and help with available grants. Outreach activities are more costly than referrals to fuel poverty partners. However, outreach partners are able to support the most hard-to-reach customers in our communities, providing help that often results in the introduction of new measures and collaboration across the industry and NHS. Many of the outreach projects provide a good social return on investment by keeping people warm and safe and delivering wider societal benefits such as reducing hospital readmissions etc. We are able to use outreach partners alongside our Customer Mapping Tool to target the most fuel poor communities. Our approach has been tested with stakeholders and will deliver £17.2m in financial benefits and £3.7m in wider societal benefits

We will continue to work with our partners in our communities to ensure our activities are appropriately targeted and deliver maximum value. We have committed to reviewing activities, measuring benefits and reporting on these publicly as part of our RIIO-ED2 partnership strategy.

2. Hywel Lloyd, Facilitating the Future: How senior will the seven people suggested in support of local government engagement be?

As part of our core business plan, and subject to final determination by Ofgem, we plan to introduce seven whole system coordinator roles that will sit in a newly created whole systems change management team.

These whole system coordinator roles will require significant experience in system planning, as well as evidence of excellent communication and stakeholder engagement skills. As such these roles will not be entry-level positions. These new roles will enable us to improve our understanding of local considerations and meet the expectations of the increased collaboration required to deliver a Whole Systems approach.

The introduction of a new whole systems change management team reinforces our commitment to local government engagement and the co-creation of local plans. The team's work and performance will be overseen at Director level, and the introduction of an annual feedback survey will enable us to ensure we are delivering effective Whole-Systems solutions that are aligned with our stakeholder needs. We plan to have the new Whole Systems team in place for the start of ED2 in April 2023.

3. Hywel Lloyd, Facilitating the Future: Given LCTs can be installed to help the network, provide flexibility etc; or not be so helpful (say unmitigated EVs); and that vulnerable customers could particularly benefit from 'good' LCT deployment, how might you work with LAs to target those who would benefit most while also supporting the network?

4. Hywel Lloyd, Facilitating the Future: For feedback after the session giving timing - fitting air con is a negative impact technology for the network; fitting air con with solar could be net neutral especially with storage - your CVP with 21,000 back up batteries for vulnerable customers could be deployed/installed before a problem rather than after - working with LAs you could find those vulnerable customers in constraint zones, suggesting a sweet spot of supporting them and adding flex to the network at the same time.

Response to questions 3 and 4: We are the first DNO to put in place a Just Transition strategy, and we have led the way in RIIO-ED1 through successful innovation projects including Smart and Fair¹ and Equal EV².

During RIIO-ED2 we will build on this success and are introducing a number of measures designed to further support a just transition:

As part of our core plan:

- Educational initiatives focusing on the benefits of LCTs, including opportunities for providing flexibility and reducing bills
- A £2.5m shareholder fund designed to support LCT accessibility initiatives

We will be working with new and existing partners on the ground and our local authorities, utilising our industry-leading customer-mapping tool and conducting horizon-scanning research to target those who need it the most and maximise value from our interventions.

We are proposing additional initiatives which go above and beyond any activities currently being delivered by DNOs as part of our CVP package:

- Exploring opportunities to develop local flexibility markets and encourage participation from local groups and those in vulnerable circumstances: we believe this would create a number of benefits including increasing the availability of flexibility, reducing overall network costs, and if well targeted supporting those in vulnerable circumstances and encouraging participation in the energy transition.
- Exploring a programme of targeted energy efficiency measures focusing on areas that will provide the greatest synergy between network needs (i.e. constraints) and the needs of our local communities, including those in vulnerable situations.

Both of these CVPs are based on collaboration and partnerships with local authorities, community groups and other parties to identify and deliver shared benefits both locally and from the networks perspective.

At this stage, we do not consider the battery packs would be suitable to providing flexibility services. However, our testing has shown that there are other benefits beyond what we first envisaged, such as the short-term powering of Wi-Fi routers to provide internet access in a power cut situation.

1 <https://www.cse.org.uk/projects/view/1359>

2 <https://www.ssen.co.uk/news-views/2021/2021-ssen-joins-forces-with-energy-systems-catapult-to-support-a-fair-and-equal-ev-transition/>