

# The Customer Engagement Group of Scottish Power Energy Networks

## Response to SPEN's RIIO ED2 draft business plan published on 1st July 2021

### INTRODUCTION

As part of the RIIO ED2 price control process Ofgem requires the Customer Engagement Group (CEG) to challenge Scottish Power Energy Networks (SPEN) regarding whether the company's business plan addresses the needs and preferences of consumers and stakeholders. To fulfil this requirement, the CEG has been engaging with SPEN since January 2020, and has actively identified challenges at different stages of the plan's development process.

We believe that in the ED2 business plan SPEN has made substantial progress through this period, and that SPEN's team members, despite heavy time constraints, have gone out of their way to provide assistance and additional information. For this, we would like to record our thanks.

The overall opinion of the CEG is that SPEN has addressed many of the challenges raised during monthly meetings, in challenge logs, and during the review of the draft plan and there are certainly aspects of the plan to be applauded.

However, there are elements of the draft plan for which the CEG has yet to see evidence from engagement and so it cannot be said with confidence that those elements address the needs and preferences of consumers and stakeholders and we have outlined these below.

Originally, there was no requirement for the CEG to produce a response to the draft business plan in addition to the final plan to be published in December 2021. However, following discussions with Ofgem and the Ofgem Challenge Group (CG) it was felt a response would be valuable to the Regulator, Stakeholders, SPEN and the Challenge Group. Indeed the Challenge Group provided five questions upon which it would like our views.

The CEG has therefore drawn up this response to SPEN's draft business plan based on the CG's five questions, whilst also taking into account Ofgem's business plan guidance.

## The Challenge Group Questions

### Question 1

***Is the plan justified by reference to the results of customer research and stakeholder engagement, and a clear approach to the trade-offs made?***

This question requires a two-part response.

#### **Is The Plan Justified by Research**

1. While the draft plan is structured in relation to the substantial customer research and stakeholder engagement carried out by SPEN, the CEG has some important reservations about presentation and process. The outcomes of the engagement are integrated with the narrative of SPEN's business plan through substantial appendices. These ought to provide the chain of evidence supporting the various commitments.
2. However, for each of these units of evidence that support the commitments, it is not always clear to us: a) who attributed these views, b) when these views were collected and c) the method by which (or how) these views were collected.
3. The large quantity of evidence collected by SPEN, makes it challenging to navigate SPEN's stakeholder evidence base. Specifically, it is not always possible to directly link an individual business plan commitment with specific units underpinning stakeholder evidence. A clearer connection between SPEN's Annex 2.1b and their triangulation documents (e.g. via cross-referencing of individual data collection events) would do much to improve levels of transparency.
4. SPEN carried out two main types of engagement. First, a significant programme of customer research was managed by its market research contractor, making contact with many thousands of customers, and segmenting the customer base in order to facilitate analysis of their views. Second, considerable direct engagement with stakeholders (many of whom would also be customers). This produced two separate sets of evidence, and we still have some concerns about how these were subsequently synthesized.
5. In addition, it was unclear how results of business-as-usual (BAU) stakeholder engagement, outside the ED2 programme, were captured, logged, and shared with the relevant ED2 workstreams, and used to inform the ED2 proposals and commitments. The CEG is particularly keen to understand whether existing stakeholders were subject to the same process and the same questioning, debate, and challenge about ED2 options as detailed in the ED2 Stakeholder Engagement Packs.
6. As a result of these observations, it is difficult for the CEG to state with confidence that the stakeholder engagement informed every aspect of planned commitments, and that the interpretation of stakeholder discussions are valid.

## **Trade-Offs**

7. The CEG has identified only one specific use of the term “trade-off” in the draft plan (p.151); there is limited discussion of instances in which a disagreement between stakeholders or sub-groups of customers occurred, resulting in a need for trade-offs.
8. There are, however, some clear trade-offs made in the development of SPEN’s business plan. The most important being the trade-off between investing for net- zero, whilst avoiding higher bills to recover this cost.

## **Winners and losers in Net- Zero**

9. SPEN has committed to investing, “£140m more each year during RIIO-ED2 than we have in RIIO-ED1” (p.8), whilst seeing bills (on average across the two licence areas) remain broadly static for ED2 (p.9).
10. This still leaves 620,000 fuel-poor households potentially struggling to cover network costs that will disproportionately benefit “able-to-pay” households, who will enjoy the benefits (some financial) of electrification and digitalisation (e.g. EVs, heat pumps, time-of-use tariffs, etc.).
11. The trade-off is, therefore, to “develop a network that’s ready for Net Zero” by increasing network costs through consumers’ bills, and seeking to ameliorate the adverse impacts on just 6% of fuel-poor households who will spend a significantly higher proportion of their income on energy bills than the “able-to-pay” households. We challenge whether the commitment to help 6% reflects a Just Transition and is sufficiently stretching.
12. Conversely, one could argue that some customers (albeit likely a minority) would be willing for SPEN to increase their network cost if this meant they could electrify and digitise their homes or businesses faster.

## **Alternative Pathways to Net Zero**

13. The CEG has challenged SPEN to provide evidence from engagement for the net-zero pathway in their business plan. The business plan includes data on CBA and Engineering Justification Papers (EJP) and both can be useful in supporting the decisions presented in the business plan. These may have been instrumental in resolving any differences between groups of stakeholders. We believe it is essential from both a transparency and stakeholder engagement perspective that the choices made are explicitly visible, so the rationale and logic can be understood.
14. The CEG also recognises that engagement with some customers and stakeholders about financial matters, principles, and options can be challenging due to the actual and perceived level of knowledge required to contribute. Notwithstanding this point, the CEG has challenged SPEN to undertake additional research regarding the financing of the plan, to ensure that ambition, options, and issues are properly discussed and understood.

15. It is particularly important to ensure that analyst and investor feedback and insight are not given undue weight compared to other stakeholders. SPEN has confirmed that additional and targeted engagement will take place during the autumn, which the CEG welcomes. In particular, the CEG is keen to ensure that SPEN has sufficient insight into stakeholder and customer views about what is needed to ensure a “fair” business plan.

***A. Are there particular areas of the plan, or specific proposals (including any bespoke outputs and Consumer Value Propositions), that you believe are not adequately justified or informed by the results of customer research and stakeholder engagement? Please explain the reasons for your answers.***

16. The CEG found no direct statements in the main narrative of the draft plan reflecting the outcome of the customer research or stakeholder engagement results on the development of Consumer Value Proposition (CVP) but please see the section on CVPs below. The Phase 4 research/engagement may provide an opportunity for further demonstration of the evidence base for the justification of bespoke Output Delivery Incentives (ODIs) and CVPs.

***B. Are you satisfied that the DNO has used a robust process to consider and resolve any conflicts in customer (including future consumer) and stakeholder needs and wants? If you think the process was not sufficiently robust, please explain how you think it was lacking.***

17. Overall, the CEG is not satisfied that sufficient thought has been given to areas of conflict between customer and stakeholder needs and preferences, such as those concerning the “boundaries” between established/legitimate DNO business, versus business carried out by, (e.g.) energy retailers, or currently provided by other sectors. We have not had sight of the process by which these conflicts have been resolved by SPEN.
18. Conflicts in customer (including future consumer) needs and preferences have been considered by SPEN and taken into account by their market segmentation exercise, which has served to predict differences between customer sub-groups, such as in preferences for accelerated investment in net-zero, as opposed to resistance to any additional investment. It is essential, from both a transparency and stakeholder engagement perspective, that the choices made are explicit, to ensure that their rationale and logic can be understood. For example, which customer and/or stakeholder segments are likely to “win or lose” as a result of these trade-offs. SPEN has verbally responded to CEG queries about trade-off decisions made to date, but we believe information about trade-offs should be in the business plan.

***C. In terms of any ‘willingness to pay’ (WtP) research carried out on either individual proposals or on the overall bill impact of the plan, are you satisfied that the stimulus and options that consumers and other less informed stakeholders received were adequate for them to give an informed view?***

19. The CEG is of the opinion that the stimulus and options received by the consumers from SPEN were largely adequate for them to give an informed view on WtP. SPEN assessed WtP using three different methods: discrete choice, contingent valuation, and a fixed-task format. Survey items were piloted through qualitative research, and work was done to test participants’ understanding of proposed service levels and pricing structures.
20. It is unclear whether Phase 3 customer research included the appropriate counter-factual tests of preferences, such as comparing ED1 and ED2 service levels and costs, using the equivalent cost structure expected in ED2. We understand, this would mean a lower cost for ED1-equivalent service levels during ED2.
21. In Phase 3, the acceptability of, and willingness to pay for, the proposals were tested systematically, using different techniques for assessing willingness and affordability, and generally found a high percentage of agreement/willingness among customer groups. However, unlike Phase 1 and 2 results, the current triangulation documents do not yet systematically link to all the relevant Phase 3 customer and stakeholder raw evidence (see community energy and connections triangulation).
22. The CEG has not yet reviewed proposals for Phase 4 customer engagement, as it is currently in the planning stage. However, this does include final acceptability testing of SPEN’s fully costed business plan commitments.
23. There is also an important ‘ability-to-pay’ question for SPEN to consider; this goes beyond WtP. Considering the entire business plan period, the CEG would like to understand as soon as possible how SPEN’s proposed business plan will impact the number of customers in fuel poverty.
24. We would also like to know what SPEN’s relevant objectives are for Phase 4 and how it hopes to achieve these objectives.

***D. What is the CEG’s view on the overall conclusions the DNO has drawn from this process, particularly in relation to anticipatory investment? Where do you have concerns and why?***

The CEG has expressed concerns above about a number of matters and we would add the following:

25. The rate of anticipatory investment intended by SPEN is dictated by their baseline Distribution Future Energy Scenarios (DFES). This tracks the bottom of the credible range in SP Manweb (SPM), and is marginally higher in SP Distribution (SPD), given Scottish Government targets.

26. The CEG has expressed concern that the level of new renewable generation assumed in the baseline scenario is lower than that predicted by some stakeholders including industry associations, the Climate Change Committee (CCC) and Regional Administrations. SPEN assumes deployment levels to be approximately 3GW (excluding storage) across both SPD and SPM during ED2, but engagement with relevant stakeholders in creating these scenarios could have been more comprehensive in relation to the number and type of stakeholders engaged.
27. Further, if network issues delay people adopting LCTs this could be a deterrent, leading to a negative perception of the process, putting net-zero targets at risk. SPEN will need to rely upon uncertainty mechanisms if demand outstrips their baseline scenario, but the nature of these mechanisms has not yet been decided, leaving the CEG with unanswered concerns on the speed of decision-making and the ability of SPEN planning, supply chain, and contractors to then act quickly enough to deliver what is required.
28. In relation to DSO, Whole Systems Development, Digitalisation, and Flexibility Services there is a lack of clarity around the specific measures to be delivered, the benefits that would accrue, and the cost and impact on bills.
29. SPEN's business plan includes a commitment to investigate the potential for harnessing third party energy efficiency measures as an alternative to grid reinforcement, as required by Ofgem. However, the CEG is concerned by the lack of detailed deliverables, metrics, or proposed new approaches to support this commitment's implementation. The CEG believes that without new approaches and dedicated frameworks (for example early data sharing, novel DNO/stakeholder partnerships, and funded trials) commitments to "consider" energy efficiency are unlikely to lead to meaningful results, and may not meet Ofgem baseline requirements.
30. Whether the commitment to a Just Transition is evident in planned investments. i.e. what are the distributional and inter-generational impacts of the planned ED2 investments?
31. To address the points above the CEG would like to see evidence and engagement explicitly addressing the pace of anticipatory investment necessary in SPD and Manweb to ensure the network is upgraded sufficiently ahead of need. The purpose is to ensure customers are able to adopt LCTs, and new generation can be connected, without delay.

## Question 2

**Do you consider that the strategies and proposals set out for: DSO activities; whole systems; consumers in vulnerable circumstances; and environmental action plans:**

**A. Adequately address deliverables and metrics for each of the baseline standards set out by Ofgem? Please highlight any areas you think are not adequately addressed and why?**

**B. Amount to a ‘complete and quality strategy’ as required by Ofgem’s minimum requirements for stage 1 of the Business Plan Incentive?**

**C. Are there any proposals that you think go materially beyond both the baseline standards, and beyond what the DNO will deliver by the end of ED1? Please explain why you think they are stretching.**

The answers to the sub question are categorized by the activities.

### **Distribution System Operator (DSO) activities**

**A. Adequately address deliverables and metrics for each of the baseline standards set out by Ofgem? Please highlight any areas you think are not adequately addressed and why?**

32. While the section on DSO in the business plan itself is largely narrative, the annexes provide significantly more detail and include many of the deliverables and metrics required to meet Ofgem’s baseline expectations. One important caveat is that, in response to continued uncertainty around the requirements and metrics to be included in the DSO ODI, SPEN has left the detail of some metrics to be confirmed in accordance with the ODI, once determined. In these cases, the CEG cannot yet form a view.

33. However, SPEN’s overall DSO strategy appears to be built on a strong foundation of data collection, forecasting capability, and dispatch systems. The strategic deliverables for these are largely well defined, but we have noted a few important gaps below. In particular, the CEG has not yet seen sufficient detail from SPEN on the deliverables and metrics for several of Ofgem’s baseline requirements relating to the sharing of data with third parties.

34. SPEN proposed an online “data hub” with an SLA for time to respond to data requests and a metric on the percentage of datasets shared. However, the CEG believes that a robust data sharing strategy to meet the Ofgem baseline requirements should include further detail on its data-openness triage process, and metrics and deliverables relating to the sharing of particular data classes. SPEN should also develop a narrative and deliverables directly linking data sharing commitments to its new DSO data management platforms (in particular, the proposed Engineering Net Zero (ENZ) platform).

35. Ofgem requirements include a high level and quality of ongoing stakeholder engagement in developing SPEN's data sharing practices during ED2. The CEG has not yet seen evidence of deliverables regarding ongoing stakeholder input to the development of data services suitable to meet this requirement in the business plan.
36. Ofgem requirements specify that the DNO should facilitate secondary trading of distribution flexibility services, via an operational data provision. While SPEN's commitments in this area mention continuing to support trial projects, the CEG is unsure if this would meet Ofgem minimum requirements and believes that SPEN could go further during ED2.
37. SPEN's business plan does include a commitment to implementing energy efficiency measures, but the CEG notes a lack of associated deliverables, metrics, or proposed new approaches to support this commitment. The CEG believes that without new approaches and dedicated frameworks (for example early data sharing, novel DNO/stakeholder partnerships, and funded trials) commitments to "consider" energy efficiency are unlikely to lead to meaningful results, and may not meet Ofgem baseline requirements.
38. SPEN's commitment to establish Constraint Managed Zones (CMZ) across a significant portion of its network appears innovative and ambitious. However, clearer metrics and deliverables, including timescales, are required to explain SPEN's strategy to integrate the various proposed DSO services within these zones. Further detail is particularly important around the integration of flexibility and ANM services within these zones.

***B. Amount to a 'complete and quality strategy' as required by Ofgem's minimum requirements for stage 1 of the Business Plan Incentive?***

39. SPEN's draft DSO strategy is clearly documented, with a strong underlying narrative. At this stage, the CEG believes that it largely amounts to a "complete and quality" strategy, although there are some areas where we hope to see further detail between publication of the draft and final plans.
40. The CEG is not satisfied that the strategy has been sufficiently shaped by customer and stakeholder feedback and is seeking further information. Additionally, we suspect that directed stakeholder consultation may now be required, in light of the recent Ofgem Significant Code Review determination, to identify the implications of the determination on the final DSO plan.
41. There are some areas of the "complete and quality" requirement (such as compliance with Ofgem's data assurance guidance) regarding which the CEG believes that Ofgem is more qualified to pass final judgement, so we have not commented on these topics.



***C. Are there any proposals that you think go materially beyond both the baseline standards, and beyond what the DNO will deliver by the end of ED1? Please explain why you think they are stretching.***

42. SPEN's DSO plan is founded on an ambitious proposal for expanding and digitising network monitoring, forecasting, and control equipment, drawing on the results of several innovation projects and trials conducted within ED1. The CEG believes that these proposals are generally robust and ambitious, and in various areas, go beyond baseline requirements while appearing to show significant added value.
43. In the view of the CEG, SPEN's proposed centralised ENZ platform not only provides an integrated forecasting tool as required by Ofgem requirement 1.1.1, but will facilitate a level of real-time monitoring and control of distribution power flows, representing a major step in the DNO to DSO transition. It would be further strengthened by additional detail or deliverables on the process for regular review and update of the EV-up and Heat-up forecasts underlying the ENZ tool, and how these revisions will feed the prioritisation of asset replacement and flexibility measures, as well as the triggering of uncertainty mechanisms.
44. SPEN's commitment to establish CMZ zones across a significant portion of its network, underpinned by a centralised CANMOP platform, appears to be an innovative and stretching response to Ofgem requirement 2.2.4. The CEG is impressed by the scale of proposed deployment, the inclusion of novel active fault level management capability, and the accompanying commitment to offer a flexible connection alternative as standard for cases in which reinforcement costs and delays would be triggered. However, the CEG needs further detail on the timescale for integration of the various CMZ functions (and on the nature of some of the other functions referenced) to fully judge the level of stretch this represents.

**Whole System Solutions**

***Do you consider that the strategies and proposals set out for Whole Systems:***

***A. Adequately address deliverables and metrics for each of the baseline standards set out by Ofgem? Please highlight any areas you think are not adequately addressed and why?***

45. The CEG welcomes SPEN's whole systems approach and the proposal to provide technical specialists to support optimisation of network planning and the Strategic Optimisers. However, the scope of solutions proposed appears limited, given the fundamental importance of these activities to achieving the best long-term value for energy consumers. We challenge SPEN to more ambitious with the range of collaboration within the plan, and how it extends beyond the electricity sector.
46. Amount to a 'complete and quality strategy' as required by Ofgem's minimum requirements for stage 1 of the Business Plan Incentive?

47. Considering the demands on the SPEN network from distributed generation and the coupling of transport decarbonisation, the business plan lacks details regarding digitalisation, and whether it is expected to deliver whole system service planning with metrics on expected performance and progress schedules.

***C. Are there any proposals that you think go materially beyond both the baseline standards, and beyond what the DNO will deliver by the end of ED1? Please explain why you think they are stretching.***

Please see under Vulnerable circumstances

**Vulnerable Circumstances**

***Do you consider that the strategies and proposals set out for vulnerable circumstances:***

***A. Adequately address deliverables and metrics for each of the baseline standards set out by Ofgem? Please highlight any areas you think are not adequately addressed and why?***

48. SPEN's business plan appears to adequately address the deliverables and, where relevant, metrics for each of Ofgem's baseline standards for a vulnerability strategy. It is notable that there is only one baseline standard that has a hard metric, relating to the frequency of updating data in the priority service register (PSR).
49. The explanatory material in SPEN's business plan narrative describes how the company believes it is addressing Ofgem's baseline standards. An example is the description of how SPEN uses social indicators to map needs to plan services, how it maintains information regarding relevant social and wellbeing issues [affecting customers], and aspects of "embedding" approaches to vulnerable customers in the business. We reviewed the business plan narrative in conjunction with Annex 4B1, which provides a much fuller account of SPEN's proposals in relation to design and governance of the "coalition partnership" in the future.

***B. Amount to a 'complete and quality strategy' as required by Ofgem's minimum requirements for stage 1 of the Business Plan Incentive?***

50. At this point it appears to us that SPEN's business plan, when finalised, will be able to meet the Business Plan Incentive (BPI) requirements that it is within our remit to review. As part of finalising the plan, we expect some improvements to explanation clarity. This is particularly true as regarding clear documentation of how the proposed levels of performance and commitments compare to present levels, and with other comparable entities. The CEG has not validated that SPEN has met Ofgem's data assurance guidance, which is one of the Stage 1 tests.
51. There are three aspects of these requirements we intend to further evaluate with the company during the autumn of 2021:

- (i) **Testing of propositions** - Regarding testing of propositions related to vulnerability services/strategy with stakeholders, both to understand the testing already carried out, and to see further testing with stakeholders. In Phase 3 engagement, stakeholders tended to show a lower degree of support for some proposals, as compared to customers.
- (ii) **Measures of success** – There are several commitments that concern new processes for, and ways of working with, other organisations. We would like to understand how the success of these initiatives is going to be validated and measured.
- (iii) **Risks to delivery and safeguards** – We think SPEN could explain in more depth the potential risks to delivering several elements of the vulnerability strategy, particularly those that rely heavily on effective partnership with, or delivery by, others – including other utilities. The PSR proposal is particularly relevant here. Many others have tried to increase PSR registration; it is not yet clear to us what SPEN will be doing differently to be able to confidently secure 80% registration among groups of people in which registration levels are presently very low.

***C. Are there any proposals that you think go materially beyond both the baseline standards, and beyond what the DNO will deliver by the end of ED1? Please explain why you think they are stretching.***

52. Ofgem’s baseline standards in this area are qualitative descriptions of the minimum requirements. Therefore, it is a matter of subjective judgement whether the details of SPEN’s plans are actually materially beyond what Ofgem may be envisaging as a baseline. For example, Ofgem Principle 3 identifies a baseline expectation that, among other related aspects, DNOs have an extensive network of partnerships with a range of organisations. SPEN is of the opinion that its proposal in the business plan to “upgrade” its partnership model into a “partnership coalition”, involving an independently-chaired governance model (described in Annex 4B1) goes beyond the baseline. The approach is clearly an upgrade to SPEN’s present partnership working practices and brings more openness and risks to them around delivery of their programme going forward. However, given the soft way in which Ofgem baseline standards are framed, SPEN should articulate more clearly how its proposals are actually materially beyond Ofgem’s baseline standards. Nevertheless, SPEN makes several commitments which, arguably, go beyond the baseline standards for a vulnerability strategy, or which may be stretching to achieve, although our interrogation of the proposals has not concluded at this time. The potential commitments that are particularly stretching seem to us to be:

- (i) **Coverage of the PSR** - SPEN is committing to achieve 80% registration on its PSR, in each need code category, by 2028. As the data in Annex 4B1 paragraph 9.3.2 shows, this mostly requires an increase of registrations among small and hard to reach sub-groups of vulnerable customers, notably people unable to communicate in English (gap of 93%) and those with dementia (gap of 75%). To move from a registration level of only 7% of a small group in the population to 80% of that group will clearly require significant efforts on SPEN’s part. SPEN will need to rely heavily on partnerships with other organisations to achieve this growth.

- (ii) **Working with Others** - SPEN intends to continue engaging with other organisations to simplify the process/experience for customers of registering and updating specific requirements they have – so-called ‘register once’ approach. SPEN is already jointly promoting PSR registration with Scottish Water, but is committed to widening and deepening this, involving a wider range of vulnerabilities and organisations with whom customers can register, and between whom data is shared.
- (iii) **SPEN plans to continue to offer and further extend the range of support, advice, and assistance provided to vulnerable customers** - not just in the event of power outages as envisaged by the baseline standard. SPENs proposed upgrade to its hitherto informal working relationships with partner charities relates to this proposal.
- (iv) **The business plan documents a specific promise** to assist ALL 620,000 customers in fuel poverty with at least information and advice (through referral to partner agencies) by 2045, providing a long-term outcome / vision.
- (v) **SPEN has made a specific promise to assist vulnerable customers with adopting smart meter installation** – adding value to other contacts the company has with these customers (also proposed as a CVP).
- (vi) **SPEN has made a specific proposal** – to invest in technology to enable and assist at least 40,000 customers amongst those facing the most significant barriers in the energy transition to reduce their energy bills and carbon footprint.

## **Environmental Action Plans**

***Do you consider that the strategies and proposals set out for environmental action plans:***

***A. Adequately address deliverables and metrics for each of the baseline standards set out by Ofgem? Please highlight any areas you think are not adequately addressed and why?***

53. Using the evidence available to us, it is our opinion that the draft business plan meets Ofgem’s baseline expectations in relation to business carbon footprint, losses, embodied carbon, supply chain management, resource use and waste, biodiversity and natural capital, fluid-filled cables, and polychlorinated biphenyls. We noted that, as identified elsewhere in this response, stakeholders’ and customers’ expectations of the EAP are often more ambitious than Ofgem’s baseline expectations.

54. The SF6 baseline requires SPEN “to reduce leakage rates and reduce the overall SF6 asset base in line with Net Zero targets”. SPEN is committed to reducing leakage rates by 10% by 2028, but their draft business plan anticipates that “the quantity of SF6 on our network, described as the ‘SF6 Bank’, will increase as the replacement of end-of-life-oil-filled-switchgear programmes proceed”. We understand that the DNOs have raised concerns with Ofgem about the practicality of committing to a reduction in SF6 before alternatives

are identified. SPEN has committed to collaboratively driving the development and adoption of SF6-free technologies, and the CEG challenges it to intensify innovation and, until alternatives are available, consider UK-based GHG offsetting to balance SF6 emissions.

55. The CEG has challenged SPEN to meet the expectations of its stakeholders by setting more ambitious targets than its current proposals to achieve carbon neutrality for scope 1 and 2 emissions (excluding losses) by 2030, and net-zero by 2040. We understand SPEN will address these points as it further engages stakeholders and revises its Sustainable Business Strategy prior to publication of its final business plan.

- (i) SPEN has partially responded to expectations to electrify its fleet before its original proposal of 2030, including a 2028 target in its draft business plan. However, several stakeholders proposed SPEN should align with the Scottish Government's commitment to fully electrify small and medium vehicles in the public sector by 2025. We have asked SPEN to explain its views as it prepares its final business plan.
- (ii) A majority of stakeholders agreed with SPEN's strategy of accelerating the replacement of high-loss assets, but they were concerned about the potential for increased losses as power generation diversifies. The CEG would like to engage further with SPEN regarding the extent to which it has considered or consulted on the potential of mitigating losses via active DSO solutions, in addition to more traditional asset replacement approaches. For example, through circuit switching/active management of power flows in circuits where high loss equipment has been identified but not yet replaced.
- (iii) The CEG has asked SPEN whether its stakeholders consider its commitments to divert 100% of waste (excluding compliance waste) from the landfill by 2030, and zero waste by 2050, to be sufficiently ambitious. We understand SPEN will address these points as it further engages stakeholders and revises its Sustainable Business Strategy prior to publication of its final business plan.

***B. Amount to a 'complete and quality strategy' as required by Ofgem's minimum requirements for stage 1 of the Business Plan Incentive?***

56. We consider that this amounts to a "complete and quality strategy", subject to our comments on net-zero and waste targets, SF6, and losses. The CEG expects that SPEN will further engage stakeholders and customers to refine and clarify its proposals before the business plan is finalised.

***C. Are there any proposals that you think go materially beyond both the baseline standards, and beyond what the DNO will deliver by the end of ED1? Please explain why you think they are stretching.***

57. The net-zero target of 2040 exceeds baseline standards, though stakeholders have indicated that the target could be more ambitious.

58. The Biodiversity and Natural Capital Action Plan goal of “increasing environmental value across our network” exceeds the baseline standard of assessing and monitoring changes in natural capital.

### Question 3

#### **Consumer Value Propositions**

***A. Are there any CVP proposals that you think do not meet the criteria set out by Ofgem (which includes ‘going beyond the functions of the DNO as BAU’ and that are not covered by the scope of the baseline expectations)? Please explain your answers.***

59. SPEN proposes three CVPs (see p159 of the BP). All of the proposals appear to us at this stage to meet, prima facie, the Ofgem criteria in that they go beyond BAU and baseline expectations. That is not to say that the case has yet been fully made for these proposals, or the value expected to derive from them. For example, with regard to one ‘limb’ of CVP1, relating to promoting take up of smart-meters, whilst it is not an obligation on DNOs to achieve this it could be argued that smart meters are now an integral feature of the electricity system and it should become part of BAU for the company to identify customers with no smart meters and promote installation.

We discuss the approach/model(s) used to assess value to consumers below.

***B. For any CVPs that you think do meet Ofgem’s criteria: do you think that the model used to assess their value to consumers is robust and that the inputs/assumptions are reasonable? Please explain your answers.***

#### **CVP1 – Supporting Vulnerable Customers**

60. With reference to Ofgem’s guidance, the two ‘limbs’ of the proposed CVP1 - particularly “technology solutions” - appear to go beyond DNO BAU activities, exceed baseline expectations, and have been the subject of customer and stakeholder engagement. The evidence in the plan suggests there is strong support for both proposals.
61. It is noted that the “technology solutions” within the scope of CVP seeks to reduce the bills of low-income customers, roughly in proportion to that portion of the bill that funds SPEN, which supports their Just Transition ambitions. The CEG has a reservation about this CVP, as it may not target a sufficient number of low-income customers over the ED2 period. At present, SPEN intends it to cover 40,000 customers over that time, with that number potentially increasing marginally if the unit cost of the installed technology is lower than currently estimated. Our understanding is that SPEN has limited this number to 40,000 customers in order to align with the guidance they have received regarding the highest acceptable cost for individual CVPs.

62. The calculations for SPEN's CVP values are contained in Annex 5C2. We were not able to review the model prior to publication of the draft BP and have not been able to explore the assumptions and calculations with SPEN at this point. Also, Annex 5C.2 indicates that the underlying technical paper supporting the proposed values is 'available on request' it being confidential to the Energy Networks Association and PA consulting. Based on what we can see in Annex 5C2 our initial view on the two 'limbs' of CVP1 is:

- (i) **Technology solution** - the approach to calculating inputs/assumptions and benefits, including those accruing to individual customers (who are expected to be experiencing fuel poverty and may be at risk of being left behind in the energy transition) appears reasonable.
- (ii) **Smart metering uptake** –the approach to calculating inputs/assumptions and benefits, especially the expected value to customers of £1.9m for 'reduced outage stress' has yet to be demonstrated as reasonable.

63. The expected benefits of the "smart metering uptake" limb of CVP1 therefore requires further evaluation and scrutiny. If this is to continue to form part of SPEN's proposals there may be other alternative customer benefits (possibly monetary) that could be expected from this, especially the benefit to customers of being able to manage their energy expenditure more effectively, and the future potential to utilise time-of-use tariffs. Nevertheless, as noted above smart meters are now an integral feature of the electricity system and SPEN will benefit from maximum take-up of smart meters, so it should arguably become BAU for a company in SPEN's position and to help to identify customers with no smart meters and promote installation.

### **CVP2 – Optioneering EV infrastructure**

64. This would appear to be a very valuable proposal based on a successful pilot and goes beyond BAU. We have not evaluated the costings.

### **CVP3 – Network Loss Reduction and safety enhancement**

65. SPEN's CVP regarding Network Loss Reduction and Safety Enhancement proposes a Mobile Asset Assessment Vehicle (MAAV) to detect exposed voltages, reducing losses, and improving community safety. This goes beyond the functions of a DNO as BAU and exceeds baseline expectations.

66. A majority (64%) of stakeholders support the MAAV CVP with the remainder neutral. At this stage, the CEG considers that the modelling of the MAAV CVP is reasonable, though we wish to explore further with SPEN the unquantified safety benefits, the geographic area it would be possible to cover within a given time period, and the potential for joint working (possibly including purchase of the MAAV) with another DNO.

## **CVP4 - Voluntary Scope 3 Emissions**

67. With reference to p115 of the business plan narrative, SPEN have proposed a CVP regarding setting a voluntary Scope 3 emissions Science Based Target (SBT). This does not appear in the section on CVPs. It is above Ofgem's baseline expectations, which are limited to "progress on reporting" reductions in Scope 3 emissions. The proposed CVP will align with the most ambitious SBT pathway, focused on limiting global temperature rises to 1.5°C. The ambition of this commitment reflects customer priorities and stakeholder expectations. SPEN is currently developing the CVP Scope 3 emissions model, so the CEG is unable to comment on that at present.

### *Question 4*

#### **Cost benefit analysis approach (CBA)**

***A. Are there any areas or specific proposals in the plan where you think other options or alternative solutions have not been adequately evaluated? Please explain.***

68. SPEN has provided 124 Engineering Justification Papers (EJP) and over 100 CBAs in the numerous annexes attached to the business plan narrative. We have not been able to consider these in detail but they appear comprehensive.

69. The EJPs and CBAs are however, largely network asset orientated and a wider view of CBAs would be valuable.

70. We are informed the EJPs cover 100% of SPEN's Load and Non-Load related expenditure and that 84% of this expenditure is linked to CBAs. This is significantly above Ofgem's minimum expectations. Under ED1 SPEN provided 20 such CBAs.

71. We are not aware of any areas or specific proposals where alternatives have not been evaluated. However, we question whether sufficient engagement has taken place to determine stakeholder preferences. e.g. the Visual Amenity EJP (ED2-NLR(A)-SPM-001-ENV-EJP – Visual Amenity) See 76.

72. SPEN say, "The undergrounding option is not always possible as the visual amenity areas also have significant flora and fauna that is protected. The requirement to excavate a cable trench through these areas would be far more detrimental to the environment and as such would not get approval from statutory consultees." However, there is no evidence that the statutory invitees or other stakeholders hold this view.

***B. Are there any areas where you are not satisfied that costs are sufficiently transparent, including in relation to costs in ED1.***

73. Some projects are new to ED2 so no comparison with ED1 is given. e.g. the Visual Amenity EJP (ED2-NLR(A)-SPM-001-ENV-EJP – Visual Amenity).



### ***C. Sufficiently justified***

74. Although the EJP's provide options and total costs for each option, there is no explanation in the EJP of how those costs are calculated. Again see the Visual Amenity EJP.
75. In addition the EJPs and CBAs were externally assured - "As part of our external assurance process, a sample of EJPs were assessed by S&C Electric and reviewed against the Ofgem Guidance Assessment Criteria. 31 EJPs were assessed, of which 28 had supporting CBAs, and these were a mixture of Load and Non-load expenditure with materiality ranging from <£2m to >£125m.
76. The assessment criteria were: Key Requirements, Background, Optioneering, Analysis & Cost, Deliverability & Risk, CBA Requirements.
77. Each EJP was given a RAG (Red, Amber, Green) score against each of these criteria plus an overarching RAG score. These papers were subject to iterative review resulting in a final number of 31 "green" papers. Zero papers were scored as "red" from initial review, and zero were "amber" after final review.
78. The areas for strengthening as identified from these reviews were developed in all EJPs, using the feedback from the 31 sample reviews to improve all EJPs and CBAs."

### ***Question 5***

***Are there any other particularly significant issues that you would like to highlight to the Challenge Group at this point? Please explain why you are flagging these points.***

The CEG has identified below some potential issues and challenges across different sections of the plan.

79. Developing a good business plan should take into consideration the political, social and environmental context of different regions within SPEN's distribution network.
80. Future scenarios predict many millions of digital monitoring devices on SPEN's systems but there is insufficient quantitative evidence regarding the level of infrastructure investment required, or how pre-existing infrastructure will be scaled to cope with the large volumes of big data generated. We challenge SPEN to justify its plans for digital resources.

### **Net zero ambition and decarbonisation**

81. SPEN has highlighted the unique system design inherited at privatisation in the SPM region, and the additional costs incurred from the meshed design. We would challenge SPEN to engage with stakeholders in the region to increase understanding of the benefits and costs.

## **Data Management**

82. Data Justice and Governance – SPEN has no plans to go beyond legal compliance and meeting Ofgem’s baseline expectations. Given the opportunities for improved citizen and customer representation, control, and privacy concerns, we would challenge SPEN to be more ambitious in its final business plan.

## **Connections**

83. The CEG identified that the conversion rates from quotation to connection are unexpectedly low. This suggests that some aspect of the process could act as a potential barrier to new connections. We challenge SPEN to monitor this more closely to understand whether this is cost related or caused by some other aspect of the process.
84. The CEG would like to challenge SPEN to engage with stakeholders to see if they would like SPEN to be more innovative and ambitious in their proposal to update heat maps every 3 months.

## **Just Transition**

85. The CEG had challenged SPEN to incorporate a Just Transition approach within its business plan. This issue has a high profile amongst SPEN’s stakeholders, especially as the Scottish government has implemented a Just Transition Commission and their first report was released this year. Following CEG’s feedback, SPEN has produced a Just Transition Strategy and also proposed to undertake engagement in the latter half of 2021.
86. The CEG challenges SPEN to explain how the Business Plan meets the Just Transition Strategy and assess how its plan affects customers in different economic groups and geographical locations.

## **Workforce Resilience**

87. SPEN has acknowledged a CEG challenge that wider and deeper stakeholder engagement is required to inform SPEN’s workforce resilience proposals for ED2, and SPEN has committed to undertake this in the period between the draft and final plan. In addition, SPEN has engaged with other DNOs and some industry groups to identify and evaluate resilience metrics and standardised reporting that could be utilised by all network companies. This work is scheduled for completion during 2021.
88. The CEG has challenged SPEN to provide greater transparency about how the workforce will change during the ED2 period by providing an annual breakdown of the total number of people required to deliver the plan, split by key competency area, and whether the role is internal, or within the supply chain. We feel that it is essential that SPEN demonstrate that it has a robust workforce plan to enable the ED2 plan to be executed, regardless of the end employer of each individual involved. SPEN has recognised this challenge.

## **Finance**

89. The CEG acknowledges that SPEN is proposing an increased rate of return compared to the Ofgem position. The CEG is of the view that effective engagement requires that the bill impact of such a change is clearly presented to customers in Ability/Willingness to Pay analysis, and that SPEN can demonstrate why the final proposal made is in the interest of current and future customers.

## **Customer Service**

90. In our final report we will comment on SPEN's proposals for continuing to improve customer service and satisfaction and to extend the range of services it is offering to customers. Although this is not something the Challenge Group has asked us to comment on now but we believe this is a significant area. Firstly for most customers how and how well problems, including supply interruptions, are dealt with are a high priority, and the most common reason for customers to be in contact with SPEN. Secondly SPEN's customer service proposals are a key strategy and delivery area which has links and dependencies to success in other areas of SPEN's business plan.
91. SPEN's core proposals for customer services, and performance in delivering those services, include a number of ambitious and innovative proposals. Most significant is to offer more personalisation and proactivity in customer communication, such that all customers will have the ability to request proactive notification in the event of unplanned interruptions and will have a choice of communication channel and language, in effect personalising communication methods for those customers that register with SPEN that they wish to have communications by a particular method or language. SPEN also takes a long term view towards ED3 as it wants to see 90% of customers proactively served and receiving services tailored to their preferences and needs by 2033. In addition, 95% of 'high risk' customers will receive face to face visits ahead of planned power cuts and SPEN plans to undertake a power cut risk assessment for all commercial customers. We consider these proposals certainly go beyond BAU for a DNO and beyond where SPEN will be at the end of ED1 and there is strong customer support, particularly from commercial customers, for the proposals.
92. The initiatives outlined will mean that in future SPEN builds up much more information about and has a more personalised relationship with its customers. That deeper relationship with and knowledge of customers will be an important basis for the engagement SPEN needs to have with customers to implement other aspects of its business plan, particularly on the path to net Zero. The customer service commitments will also benefit to all customers, including business customers, and customers in vulnerable circumstances so there is also an important link with the vulnerability strategy.

## **ENDS**