

# Response to Ofgem RIIO-3 Draft Determinations Consultation

July 2025

This response to Ofgem's RIIO-3 Draft Determinations Consultation is provided by SP Energy Networks' (SPEN) Independent Net Zero Advisory Council (INZAC).

The INZAC acts as the Independent Stakeholder Group (ISG) for SPEN, as mandated by Ofgem in its Business Plan Guidance published on 30 September 2024.

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## INZAC CONSULTATION RESPONSES

### 1 Independent Stakeholder Groups

**Question OVQ 1 - We would welcome any views on the enduring role of the ISGs during RIIO-3 and for future price controls.**

#### ISG outcomes

- SPEN advised us that it thought the Independent Net Zero Advisory Council (INZAC) brought it real benefit and challenged its thinking in developing the Business Plan (BP).
- We believe the group has played an important role in securitising and challenging the BP. In our view this external oversight has led to a more robust and well-evidenced BP that is in the interests of consumers and stakeholders, and also increased transparency of the decision-making process.
- The mandate for the groups in T3 was clear and provided the groups with standing and remit (particularly around stakeholder engagement). Ofgem guidance has been important to mandate and empower the Independent Stakeholder Groups (ISGs) and confirm that their remit covered both BP process and BAU performance.
- Ofgem's guidance clearly emphasised the importance of stakeholder engagement, requiring companies to demonstrate how stakeholder feedback had been incorporated into the BPs, whilst confirming that ISGs were not themselves stakeholders. This enabled ISGs to challenge inadequate engagement or unaddressed stakeholder concerns.

#### Our experience

- At the start of RIIO 2, SPEN committed to setting up a group – the INZAC - that would 'bring the outside in' and provide constructive challenge.
- The INZAC has a system of small 'buddy' groups that allows members to work directly with SPEN subject teams to provide deep-dive early-stage challenge to different parts of the company.
- When the ISGs were mandated by Ofgem, after consideration, the company and the group agreed, that the INZAC was able to act as SPEN's ISG for T3 (plus ongoing performance of T2 and ED2).
- We appreciated the Ofgem guidance given to the groups within the RIIO-3 Business Plan Guidance, and the fact that the group already had positive relationships with the company meant it could be effective although the guidance was rather late in the process.
- This was augmented by the existence of the 'Buddy Groups,' which helped with 'deep dive' challenges to both the company's thinking and what was submitted in the plan.
- Both the INZAC and SPEN tracked the work of the group as a whole and the buddy groups: the INZAC members provided reflections, feedback and 'strategic challenges' or 'quick wins' after meetings (a process used by some members in previous ED, GD and water business planning cycles), while SPEN tracked these and the company's responses in Excel Engagement Logbooks, which also summarised, the stakeholder engagement undertaken and how the outputs were being used in decision making. This provided necessary information for the ISG for our Call for Evidence submission without being too onerous for SPEN's teams.

An important part of ISG's value is their ability to effectively scrutinise and challenge how consumers and stakeholders are engaged, and ISGs are well suited to this role. Engagement comes in many shapes and sizes and the regular contact ISGs have with the companies, particularly if subgroups are in operation, provides a good platform for continuous scrutiny of engagement as it is planned,

executed and refined, and of how feedback influences the company's decisions. Omissions or problems can be addressed quickly. The 'Enhanced engagement framework' guidance from Ofgem setting out what information companies needed to provide to their ISGs about their stakeholder engagement and its influence on business decisions brought important clarity to this part of the ISGs' role and the requirements for both company and ISG.

In addition, ISGs provide the opportunity for strategic challenge:

- Across the UK we are seeing an increasing level of integration in networks, and the nexus with other critical networks e.g. transport. We believe ISG representation for customers then becomes increasingly more important, as does the need to challenge – and potentially provide evidence on - emergent best practice during such transformational programmes.
- Networks have to adapt to new business models and technologies (internally and within their customers), and 'whole system' interactions with other networks. External complementary expertise within the ISG provides value, both by providing access to other viewpoints and by drawing on experience of transitions within other organisations and sectors.
- ISGs offer a vital opportunity for networks to review, reflect on and benchmark their processes and priorities to respond to increasingly complex customer and societal needs. ISG members provide awareness of factors outwith organisational expertise, e.g. the needs of specific industrial sectors or the elements of effective communication.

### **Guidance and recommendations**

As set out above Ofgem's guidance around stakeholder engagement has provided helpful clarification. Other points where clarification would be helpful are:

- Confirmation that companies' regulatory and oversight relationship with Ofgem and DESNZ means this should not be counted as stakeholder engagement by the companies.
- Confirmation that companies must support and work with their ISGs with clear consequences for those who do not.
- Guidance on elements of ISG membership specialisms to give some consistency (e.g. stakeholder engagement, consumer policy, sustainability/Net Zero, technology) while giving companies freedom to take decisions on the overall composition of their group. Some specialist concerns have particular aspects that will be important to the ISG and customers, although the ISG does not have a general responsibility to challenge on the topic. For example cybersecurity is not part of ISG's remit. However, cybersecurity is also an interface with customers and stakeholders, with privacy, control and security implications for them. The network company or ISG may want to have representation on this aspect.
- Guidance on if, when and how Ofgem expects ISGs to report. We suggest Ofgem provides more guidance on the Chair's Statement and ISG reports to be submitted with the BPs and for the ISG Responses to the Call for Evidence. This would lead to more consistency across the groups, which would help Ofgem more easily compare the reports and responses. We would welcome consultation (at least with the ISG Chairs) on any such draft guidance for ED3.
- Confirmation that Ofgem expects companies to evidence their stakeholder engagement and research and show how it has informed decisions and direction. This would be a useful addition to Ofgem's requirement for a challenge log and would help improve consistency between the companies on the extent of challenge and information sharing with their ISGs.
- It can take some time before the company and its ISG can build a relationship of mutual trust where the company's teams welcome constructive challenge and we have observed that both the company and ISG benefit when the company 'lets the ISG in' to its thinking at an early stage where challenge can be effective. At the same time, the ISG must avoid 'capture' by the company and continue to bring fresh perspectives from evolving customer

groups. We recommend that membership is kept under review, but changes are paced to maintain the ISG relationship with company counterparts.

#### **Role of the Chairs' group**

- The ISG Chair meetings created an opportunity for communication among the groups (not seen in previous BP planning cycles).
- It also created a platform for Chairs to directly voice questions and concerns to Ofgem (e.g. feedback on the draft BP Guidance, which we believe led to better guidance). We suggest that it would be beneficial for the meetings to continue, as both regular Chair-only meetings and through periodic meetings with Ofgem. The remit and agenda for the Chairs' meetings with Ofgem should be set out in advance.
- The Chair's group could be replicated for common pillars of the ISGs' activities, such as performance or sustainability groups. While the composition and ToRs of the ISGs are for companies to decide, meetings across the groups would encourage consistency of approach and sharing of best practice.

## **2 Community Benefit Funding / Net Zero Fund**

### **Question ETQ 8 - Do you agree with our proposed design of the Community Benefit Funding pass-through mechanism?**

We support the creation of the Community Benefit Funding pass-through mechanism, but we believe that the costs for feasibility studies and capacity building should not be included in the 10% cap on delivery costs.

New Electricity Transmission infrastructure is already proving controversial in some communities. It is therefore especially important that Community Benefit Funding provides projects that communities view as genuinely beneficial. Funding projects that are proposed by communities themselves can make an important contribution here. However, individual communities are not necessarily experienced in developing appropriately specified and costed proposals. In our view, this lack of experience could leave beneficial projects that communities value at risk of going unfunded, particularly in more disadvantaged communities where there are likely to be lower levels of capacity and capability when it comes to the specialist skills needed to develop proposals to the required standard.

Feasibility studies can bridge the gap from the original idea to well specified proposal but they are not merely an 'administration' task and so not a straightforward step on the administrative delivery pathway. Projects may need to be rescope, further evidence gathered or the project may prove unsuitable. We urge Ofgem to carefully consider the evidence that SPEN has provided from the T2 Net Zero Fund<sup>1</sup> regarding the difference that feasibility studies can make to turning ideas into deliverable projects that communities value, and remove this cost from the administration cost cap. A cap on feasibility study costs could be applied separately, with submission of fully justified costs to Ofgem required. Noting here for the avoidance of doubt that we support Ofgem's ongoing challenge to companies regarding value for money and evidence that costs are efficient in all areas.

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<sup>1</sup> See pages 97-107 of the Environmental Action Plan appendix to SPEN's T3 Business Plan. In particular, the final two paragraphs of page 98, the Project Planning and Feasibility Support case study on page 99, Section 2 of Table 36 on page 102, Section 2 of Table 37 on page 104 and point 2 of the Measuring Impact section on page 106.

It is easy to overlook the important role that Capacity Building can play in empowering and enabling individual communities to understand the potential of Community Benefit Funding, identify projects that will deliver real benefits to the community and develop well-specified proposals that can move swiftly to the delivery phase once approved. Capacity Building has a particularly important role in disadvantaged communities, who may have more difficulties accessing the full potential of the Community Benefit Funding. However, these communities are likely to need a more bespoke and proactive approach to Capacity Building than cheaper one-size-fits-all materials if they are to make the most of the Community Benefit Funding opportunity. We therefore urge Ofgem to consider the case for removing this cost from the administration costs, potentially applying a separate cap on Capacity Building costs.

**Question SPTQ 1 - Do you agree with our proposal to retain the Net Zero Fund UIOLI for SPT, and with our proposed parameters for it?**

While we agree with retaining the Net Zero Fund for SPT, the proposed parameters appear to be in conflict. We understand that Ofgem requires SPEN to submit social return on investment (SROI) benefits from delivered projects. However, if SPEN's role is limited to only conducting net zero workshops and to provide project planning and feasibility support to community groups, then it is, in many cases, unlikely to be practical for SPEN to calculate SROI benefits. Workshops, project planning and feasibility support cannot guarantee funding from other sources nor delivery of a project within a specific timeframe (even if a project is commissioned). We understand it can be difficult for community groups to achieve funding from other sources and get programmes off of the ground. In addition, SROI benefit from these early-stage activities is difficult to measure, and estimated SROI benefit at the feasibility stage may differ from what is achieved in practice.

SPEN has a track record of successfully funding relevant projects directly, as demonstrated by the T1 Green Economy Fund and the T2 Net Zero Fund, both of which have delivered tangible impact in terms of carbon savings and SROI. There are real benefits for both communities and the wider Energy sector from developing this evidence base further at this relatively early stage of the Energy Transition. We therefore urge Ofgem to allow SPEN to directly fund projects via the T3 Net Zero Fund, in addition to conducting workshops, project planning and feasibility support. We believe that this would ensure that beneficial projects for communities are delivered and the evidence base of 'what works and how' is increased.

However, if Ofgem do restrict the scope as per the Draft Determinations, we believe that clear guidance from Ofgem will be needed regarding the elements of a project for which SPEN should provide SROI figures, and at what stage(s). The guidance should acknowledge that not all projects where SPEN funds feasibility studies will necessarily achieve delivery funding from other bodies. It should also acknowledge and address the risk of inadvertent double counting of any SROI calculations for delivered projects that originated from an ET3-funded feasibility study i.e. that calculations by both SPEN and the delivery funding body for the same project are included in official figures.

### **3 Cyber**

**Question OVQ 35 - Do you agree with our proposals for the Cyber Resilience re-opener?**

Given the commitment to continuous threat analysis, we believe that the flexibility this re-opener offers should allow the network operators to be responsive. In the interim we would propose that Ofgem works with the networks to build more common best practice across regulatory compliance in cybersecurity practice and readiness.

## 4 Digitalisation, Data & Innovation

### **Question OVQ 20 - Do you agree with our proposed NIA funding levels?**

There is a need to both couple accelerated impact from Innovation, and in parallel, to build capacity, capability and new trusted supply chains for the current and future needs of the company. We do not believe this budget allocation is sufficient as to deliver the speed/rate of new technologies, and to compete with parallel market interests in similar emergent technologies.

### **Question OVQ 22 - Do you agree that £2.5m of additional NIA should be used to provide enhanced advisory services for innovators at the early stages of innovation development?**

No. The structures of NIA funding and projects, which already centre on “challenge led needs” of the operator, provide requirements towards programme adoption e.g. data standardisation, cyber evaluation etc. We are not supportive of spending £2.5m on advisory services to NIA projects, when challenge led design is already part of the current NIA process. Through the challenge led design approach only projects with a strong justification should be going ahead under the present arrangements. We therefore see no value for consumers or the companies from the proposed advisory service and do not support it.

### **Question OVQ 23 - Do you agree with our approach to improving oversight and reporting of the NIA?**

We agree with the need to improve oversight and reporting of the NIA, and in terms of the approach, we believe Ofgem should integrate ISG representation either on the quarterly or 6 monthly basis. We note that there is significant replication in NIA initiatives, for example several exist in terms of low voltage network innovation. We therefore believe that the oversight panel needs to consider strategic agreed priority areas and encourage the companies and network operators to build on prior learning and initiatives.

### **Question OVQ 24 - Do you agree with our proposals to allocate £500m for SIF funding?**

No. We believe the overall % value of the SIF (sub 5% of total budget) is insufficient in comparison to the overall investment levels. Also when benchmarked against the network companies ambitions in terms of rate of change, scale of change, complexity in new BAU technologies for CNI etc this percentage seems inadequate. The level and rate of business transformation, and increased nexus convergence requirements across networks and other critical networks e.g. transport should not be underestimated. In our view the SIF should reflect 10-15% of total RIIO settlement, and given the new programme architecture for Innovation this increased and targeted investment would be derisked.

### **Question OVQ 25 - Do you agree with our proposals to introduce a ‘Programmatic Approach’ to the SIF?**

Yes, we believe that an overarching structure and oversight capability is vital to expedite innovation to BAU aligned to the current and emergent needs of networks.

### **Question OVQ 26 - Do you agree with our proposal to introduce a £50m deployment fund, utilising £50m from the total £500m SIF allocation?**

No, this should be in addition to a larger SIF allocation. However the function of the deployment fund to support continuity and scalable demonstration across financial controls - is a good initiative.

**Question OVQ 27 - Do you agree that the deployment fund should also be open to innovation projects that haven't been funded through NIA, NIC or SIF?**

Yes we agree.

**Question OVQ 28 - Do you agree with our proposal to reverse the SSMD position of removing the Discovery phase from SIF?**

Yes we do agree. We believe that this will reduce overlap and replication with NIA projects that should have better coordination moving forward with respect to SIF projects.

**Question OVQ 29 - Do you agree with our proposals to retain the core aspects of the SIF for RIIO-3?**

Yes.

**Question OVQ 30 - Do you agree with our proposals for a more flexible approach to contribution rates to fund SIF projects?**

Yes we agree. This will support high risk and high reward innovation, whilst also protecting funding in terms of higher Technology Readiness Level/reduced risk concepts in terms of customer funded innovation pot.

**Question OVQ 31 - Do you agree with updating the SIF eligibility criteria and assessment process?**

We believe that the SIF eligibility criteria and assessment process can be improved. However we believe it is important that the network operators and ISGs inform any review. This would allow, for the creation of a relevant matrix, which takes account of network needs and customer interests.

**OVQ 32 - Do you agree with our proposal to establish a direct pathway for transformative projects to seek Ofgem's support for funding?**

We do agree with establishing a direct pathway for transformative projects to seek Ofgem support, as this will support more strategic cooperation and potentially fast track impact.

**Question OVQ 34 - Do you agree with our approach to improving reporting of deployed SIF projects and lessons learned post-funding?**

Yes we agree. We believe that new projects need to explain and should justify their complimentary fit to current and prior projects/work. In addition we would suggest that there should also be an embedded criteria, where relevant, with respect to what learning, technology etc is adopted from prior work into new project initiatives.

**Question OVQ 36 - Do you agree with our position of not changing the Digitalisation licence condition?**

Yes, we believe it is an important licence condition. However, the Data Best Practice Guidance needs to be updated in terms of its requirements, e.g. on Risk we would question whether the risk mitigation steps are still effective given the availability of diverse data, reverse engineering analysis or integrating sensitised data towards breaching security, privacy and/or control.

**Question OVQ 37 - Do you agree with our proposed approach to the DSI licence condition?**

The Data Sharing Infrastructure is a strategic initiative aligned with tRESP and accelerating the integration of enabling digital services/technologies. However, the interoperability and standardisation requirements need to be lead by an agency with experience and independence in



terms of secure data management and information architectures e.g. NPSA, NCSC. Its integral to design for security from the outset and resource needs to be made available across both cybersecurity and Data and Digital investments.

**Question OVQ 38 - Do you agree with our proposed design of the Digitalisation re-opener?**

We do not believe that 1 reopener is sufficient given the need for SPEN to be responsive with emergent and collaborative learning with NESO, NDTP and other operators. New integration architecture standards are being created and it is vital to enable update, adaption or adoption of new requirements and enabling technologies.

## **5 Sustainability**

**Question ETQ 11 - Do you have any views on our proposed approach to biodiversity funding, notably whether it is appropriate or not for consumers to fund biodiversity outputs beyond legislative requirements?**

We believe that Ofgem should consider the impact on biodiversity not just for planning consented projects.

**Question ETQ 43 - Do you have any views on our proposal to reject these two environmental UMs?**

We are concerned about how the additional costs for low carbon construction and technology will be adequately funded, if the two environment uncertainty mechanisms are rejected. In particular as we believe that innovation funds may not be sufficient to roll out measures across projects at scale. Before the market is sufficiently mature, there are additional costs for such materials and technologies, which, if not sufficiently funded, could mean that SPEN would not be able to meet their approved Net Zero target (which will therefore impact the UK Government's Net Zero target).

**Question SPTQ 7 - Do you agree with our proposal to reject SPT's Environmental Re-opener?**

We noted that Ofgem have proposed to reject the SPT Environmental Re-opener and suggested that environmental legislative and regulatory changes can be covered in the Net Zero Reopener. In order to accommodate this, the current Net Zero Reopener will need to be suitably amended (and potentially re-named).