



# Regulatory Financial Performance Report

2022/23

SP Transmission

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# Executive Summary

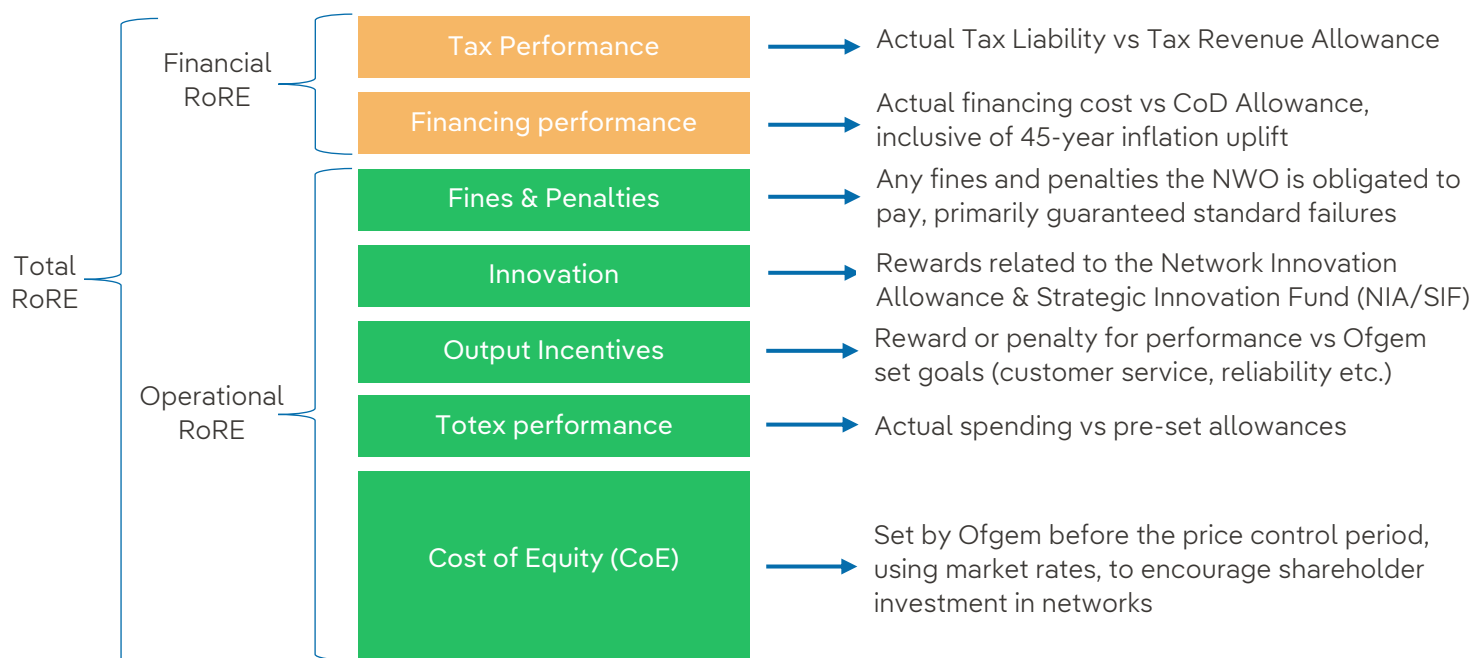
## WHAT IS THE RFPR?

The Regulatory Financial Performance Report (RFPR) aims to produce a comprehensive, transparent, accessible, and accurate measure of network company Financial Performance under the RIIO framework. The RFPR comprise two main elements:

- RFPR templates for reporting the data; and
- This RFPR commentary and supporting information document to be read alongside the tables

The report consists of the different areas of Network Owners (NWO's) activities, including expenditure (totex), output incentives, innovation, financing, and tax among others.

For each of these elements the NWO's actual costs and revenues are compared against allowances (i.e., what NWO's are funded for), the difference between these forming the basis of NWO performance. Performance is shown in the form of Return on Regulatory Equity (RoRE), where the regulatory equity is the portion of the NWO's asset base which is funded by shareholders i.e., the portion of Regulatory Asset Value (RAV) given by NWO's gearing level. The return is then given by the upfront Cost of Equity (CoE) percentage allowance in conjunction with the performance versus allowance of totex, output incentives, innovation, fines and penalties, financing, and tax, as a percentage of the regulatory equity.



The RoRE is presented in terms of both notional gearing and actual gearing. Notional gearing is set by Ofgem as a reasonable level of gearing for NWO's given the level of investment risk – 55% for Transmission Network Owners (TO's). Actual gearing is given by the individual companies specific

funding structure so can vary through time and between companies – currently around **57%** for our Transmission network company.

Although this measure of performance is beneficial for comparison across the industry it is important to note that while performance can be earned during the RIIO price control this is often not realised in income and expenditure during the period. Regulatory mechanisms mean this can take up to 45 years, so there remains significant uncertainty in realising this performance. Performance for specific years or across the period should not be seen as related to profits received in that year/period.

In terms of proposing a preferred metric to RoRE, we strongly advocate the Return on Capital Employed (RoCE) as the most appropriate performance metric for the purpose of reporting company returns. The RoCE metric is defined as the earnings before interest and tax (EBIT) divided by total assets less current liabilities. EBIT is used as it measures the return available to meet both equity and debt holders before the impact of taxation. It best reflects operational performance since it is unaffected by corporate and tax structures. It is a commonly used and understood measure of profitability across many industries. For example, the CMA used RoCE as a principal profitability measure in the GB energy market investigation (Source: CMA (2016): Energy Market Investigation, Final Report, Appendix 9.9, Approach to profitability and financial analysis, para 23-25).

The consistency and comparability of the RFPR needs to be enhanced through continued development of the RIGs guidance. There are areas like taxation, forecast financing costs and enduring value adjustments where different approaches may be adopted. We believe enduring value adjustments should be completed by all companies.

Ofgem have previously said that consistency was applied in some areas, but no specifics were mentioned. It would be beneficial for stakeholders for this to be quantified.

## **OUR PERFORMANCE**

**We are pleased to present the 2022/23 RFPR templates and commentary for SP Energy Networks (SPEN). This document contains information for the TO owned by SPEN – SP Transmission (SPT).**

**SPT** are keen to promote transparency of our performance and the returns we make. To this end we have refreshed our commentary to provide context and further detail to the numbers presented in the RFPR template to be more straightforward and understandable to a wider range of readers.

Due to a lack of context and information around the basis of the RoRE performance measure and Ofgem's calculation methodology we continue to believe stakeholders are displaying a fundamental knowledge gap in relation to a number of elements of company performance, notably the cost of debt (CoD) allowance for Network Owners. There is a lack of understanding that companies' annual CoD allowance does not cover the actual annual cash outflows for interest and shareholders are required to fund interest payments in excess of allowance, this is explained in further detail below. We believe this should be addressed through actions including prominently explaining that the cost of debt is provided on a real basis while the interest rate on the majority of company's debt is on a nominal basis.

We have now completed the second year of the RIIO-T2 price control, continuing with our strategy of responsibly investing in the network to balance the large scale of investment required to meet the needs of today's and future consumers, while also ensuring the level of costs to customers, via the network charge on electricity bills, stays at a reasonable level. Our investment strategy across

**SPT** is to drive the growth and development of its regulated businesses through a balanced programme of capital investment.

The scale of investment is consistent with the five-year price review period allowed capital expenditure programme. We are proud of our delivery and performance over the RIIO-T1 period and are working hard to continue this into RIIO-T2.

To provide our essential services it costs SPT customers an average of

**12p** /day\*  
\*in today's prices

Less than a supermarket meal deal a month

Our essential operations during the RIIO-T2 price control are forecast to increase the transmission element domestic customer's bills over the price control period in real terms (bill movements are lower than inflation). For **SPT** this is forecast to be a **7%** increase, from **£41.0** 22/23 prices **p.a. in 2021/22 to £44.0** 22/23 prices **p.a. by 2025/26.**

We have received a derogation to not produce and publish Regulatory Accounts for **SPT** for 2020/21 onwards. In its place the Regulatory Financial Performance Reporting pack ("RFPR") will provide the required details on regulatory and financial performance for our stakeholders. Key financial performance indicators for 2022/23 and the movement on the prior year are summarised below:

<b>SPT</b>			
<b>£m</b>	<b>2021/22</b>	<b>2022/23</b>	<b>Δ</b>
Revenue	408.4	371.0	-37.4
Operating profit	229.3	191.3	-38.0
Net profit	91.8	110.7	+18.9
Investment	188.3	208.1	+19.8

While this commentary focusses on **SPT's** financial performance, a separate report, the Transmission Annual Performance Report for 2022/23 provides the companies stakeholders with a comprehensive view of our operational performance and how the companies are performing against the commitments made in their RIIO-T2 business plans. This report is due to be published by the end of September 2023 and can be found on our website at:

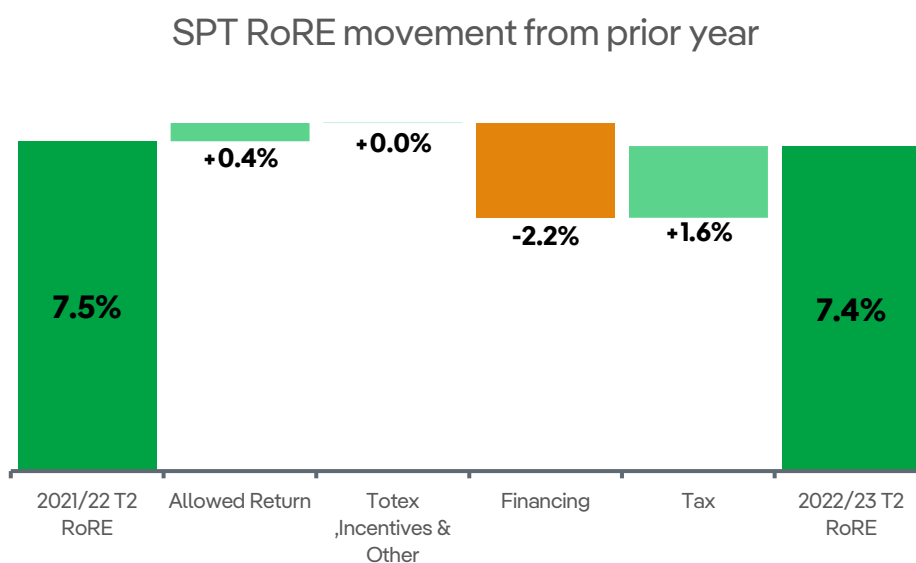
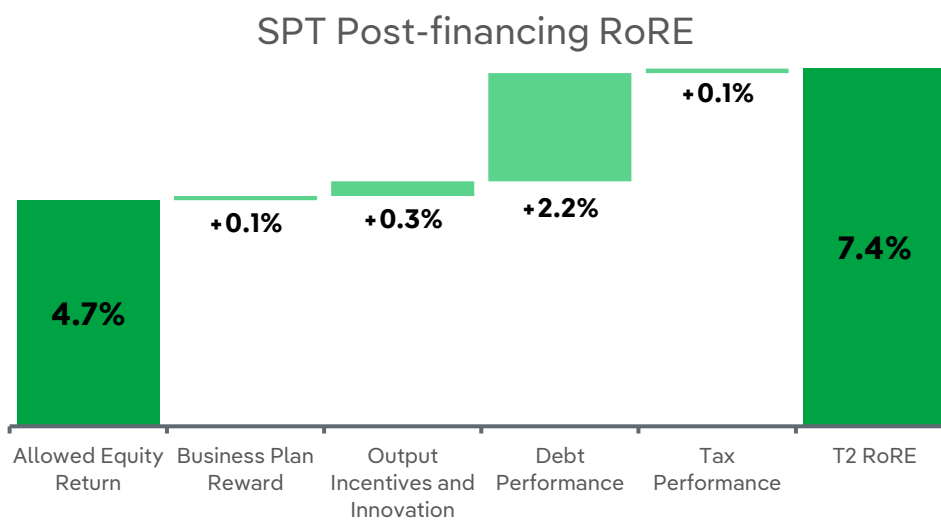
[Transmission Annual Performance Reports - SP Energy Networks](#)

# Financial KPI

## OVERVIEW

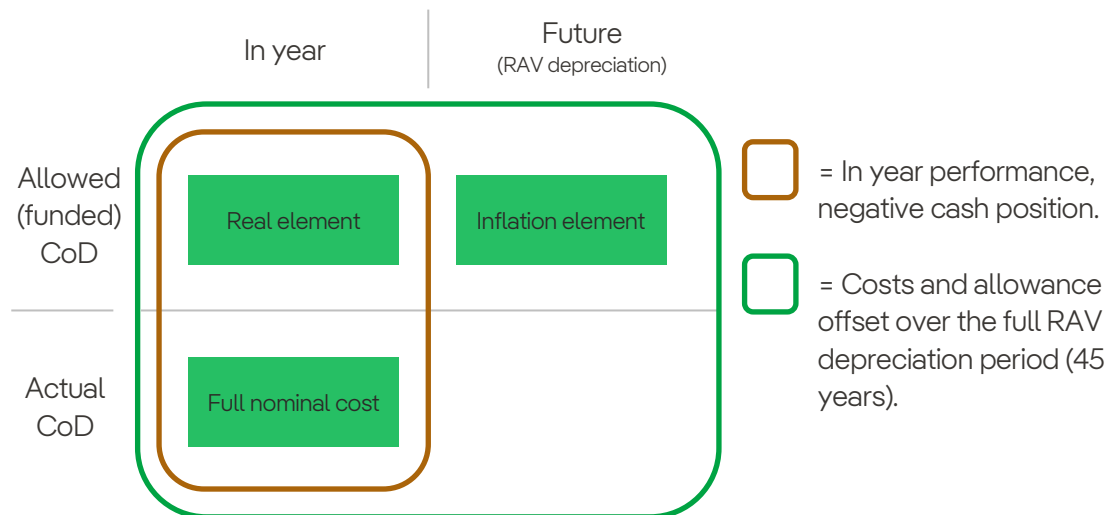
SPT's financial performance is detailed below. Overall, we expect to over deliver on our business plan contract. Our Operational RoRE forecast for the RIIO-T2 period is **5.1%** for SPT, and when including our financing and tax performance, this rises to **7.4%** for SPT. As mentioned previously, Ofgem's RoRE methodology compresses performance which is earned in the RIIO-T2 period but realised over a 45-year period into in-year performance, potentially misleading stakeholders into believing reported RoRE is in line with profits.

The breakdown of our total RoRE is shown in the graphs below:



**Financing performance** reported in this year's RFPR, via Ofgem's methodology, shows a positive financing performance when costs are compared against allowance. This is driven by the current high inflationary environment, in conjunction with Ofgem's methodology for calculating performance.

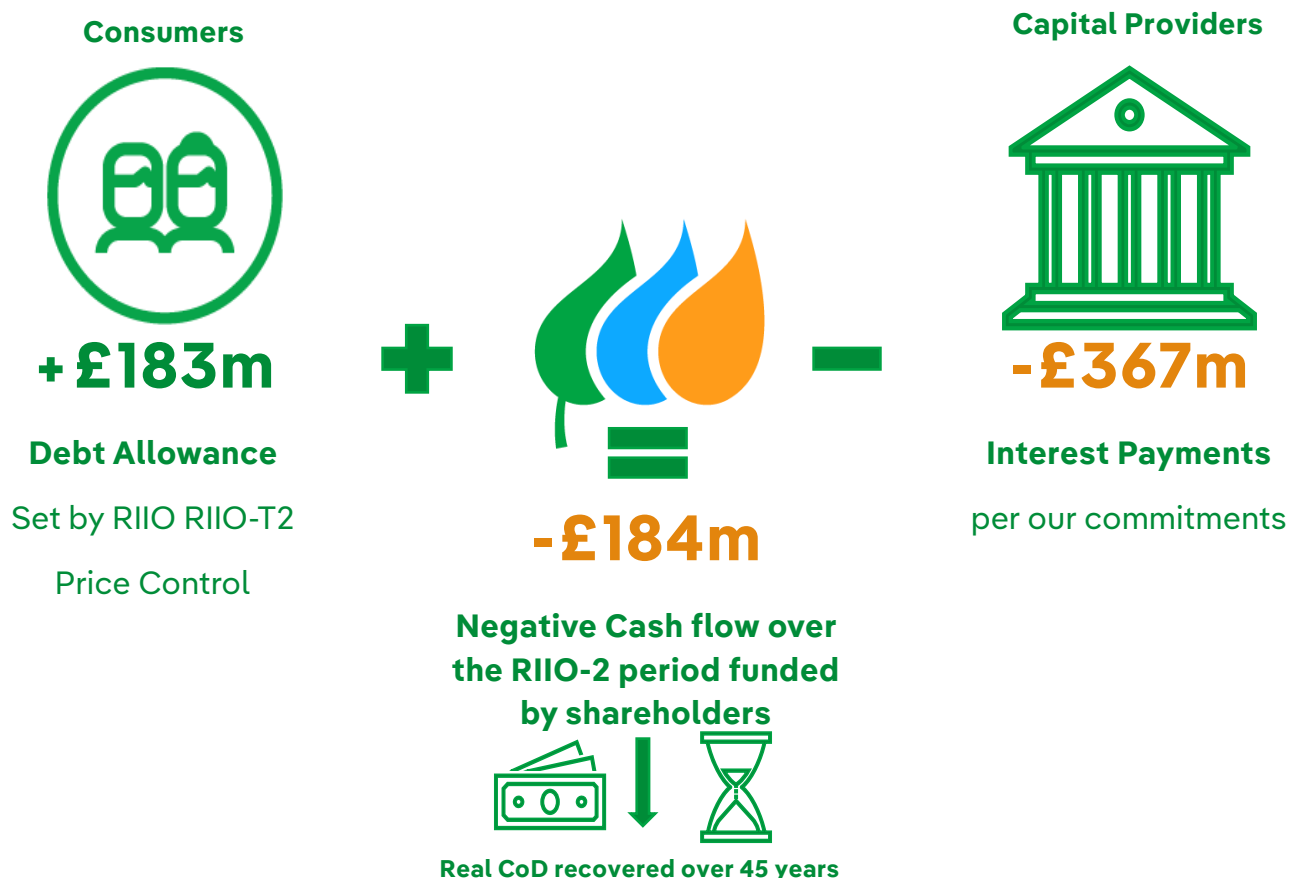
Ofgem's current "economic performance" measure of financing performance in the RFPR effectively takes the inflation element of our cost of debt allowance that would be applied to the RAV and collected over the course of its depreciation (45 years), and attributes that performance to a single year's results. This is shown visually below:



In reality, a single year's results will be driven in part by past years inflation across multiple years, smoothing out peaks and troughs in inflation and tending towards long term inflation averages. Conversely, the cashflow position a network owner faces in year excludes the future inflation returns and demonstrates the cashflow impact of the year in question, i.e., the cost of debt (CoD) allowance minus actual interest costs.

Assuming our CoD is fully funded over the full RAV depreciation period (up to 45 years), we still face a cash negative position within the year. This is exacerbated by an increasing RAV, driven by **high investment requirements and in periods of high inflation – where inflation for 2021/22 & 2022/23 was 4.5% and 8.8% respectively.**

Therefore, we have a funding gap in the short term driven by this negative cashflow relating to financing, this is set out below:



SP Debt Cashflow View - Out(under) performance	21/22	22/23	23/24	24/25	25/26	RIIO-T2
Cost of Debt Allowance	29	30	34	41	50	183
Net Interest	29	49	91	100	99	367
<b>Pre-Tax Cost of Debt performance (actual gearing)</b>	<b>-0</b>	<b>-19</b>	<b>-57</b>	<b>-59</b>	<b>-49</b>	<b>-184</b>

This long-term collection of returns is set by Ofgem to incentivise long-term responsible investment and stability in the networks, however leads to a short term negative cashflow position which is then required to be funded by shareholders. To this end, we have included an additional cashflow measure above to highlight this issue and improve clarity when compared with the view provided by Ofgem in the RFPR template.

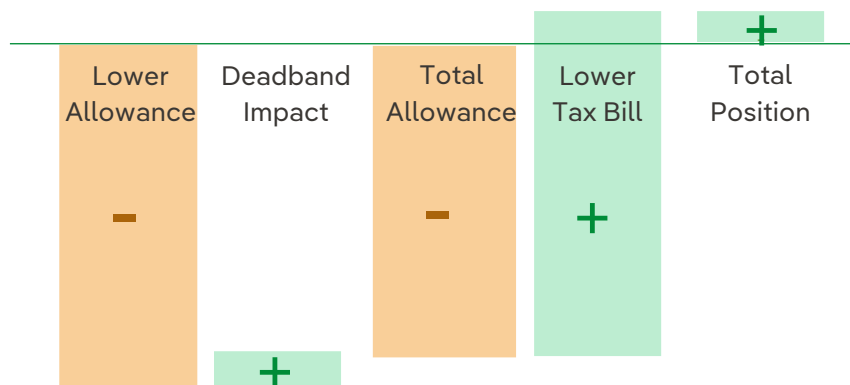
**Tax performance** in this year's RFPR shows a slight outperformance against the allowance largely due to differences in the assumptions used to calculate allowances versus our statutory accounting approach (for example capital allowance allocations etc).

As part of the government's 2021 Budget, they announced a 'super-deduction' on capital allowances, impacting the general rate and special rate pool additions. The general rate was increased to 130% (from 18%) and the special rate was increased to 50% (from 6%) for 2021/22 and 2022/23 first year additions only. Most of **SPEN** investment is subject to the special pool rate. This change lowers our tax liability, however, consequently lowers our tax allowance in tandem. Overall, these changes to both net off in our tax performance, save for a small benefit due to the deadband within Ofgem's Price Control Financial Model (PCFM) which gives a small upside when accounting for the large drop off in allowances, the chart below sets out the principle of this. In



previous years the deadband has been a downside for **SPEN** when the special rate was reduced to 6% (from 8%).

In 2022, the UK government also announced an extension of this scheme to cover the period 2023/24 through to 2025/26 which covers the remainder of the T2 period. The introduction of First Year Allowances (FYA's) will have a similar impact to the on both **SPT's** statutory tax liability and regulatory allowance.



**Totex performance** reported in this year's RFPR shows expenditure will be broadly in line with allowances across the RIIO-T2 period. There has been significant change within the energy landscape since the submission of our RIIO-T2 business plan in December 2019. We have seen significant developments in offshore wind generation projects seeking to connect in Scotland and an increasing prevalence of battery storage, as well as onshore wind and solar generation. We created our RIIO-T2 business plan with the flexibility to respond to this changing landscape and have successfully adapted our plans accordingly. We recognise this trend will continue throughout RIIO-T2 and beyond and will continue to support the UK Government and devolved Governments in enabling and delivering on their Net Zero objectives.

Our current forecast total expenditure (Totex) over the five years of RIIO-T2 is **£2.4bn**<sup>18/19 prices</sup>. This is in line with our RIIO-T2 allowances. We are forecasting we will deliver efficiencies through our approach to project delivery and innovation, however we are also experiencing upward pressure in market pricing and supply chain impacts, which are inhibiting our ability to realise these efficiencies, further detail on our Totex performance can be found below.

As noted previously the performance reported in the year or period is not reflective of in year/period returns. In terms of our Totex performance, in simple terms only 15% of this performance is realised in year/period, the rest is collected over the 45-year RAV depreciation period.

**Incentives and other** This is the second year that we have reported on ODI performance for RIIO-T2. We have earned **£5.3m** of incentives in the year with a forecast to achieve **£20.3m** across the period as a whole. More detail on the breakdown of incentive performance can be found below.

## REVENUE BREAKDOWN

**SPT's** Regulated Revenue for the regulatory year 2022/23 was **£336.1m**, the table below:

<b>2022/23 Regulated Revenue (£m<sub>nominal</sub>)</b>	<b>SPT</b>
Adjusted Base Revenue	£368.9m
Legacy Allowed Revenue	-£3.7m
Under/ Over Recovery and K term	-£29.0m
<b>Regulated Transmission Network Revenue</b>	<b>£336.1m</b>

Base Revenue is the largest element of **SPT's** Regulated Revenue and is calculated in Ofgem's published Price Control Financial Model (PCFM).

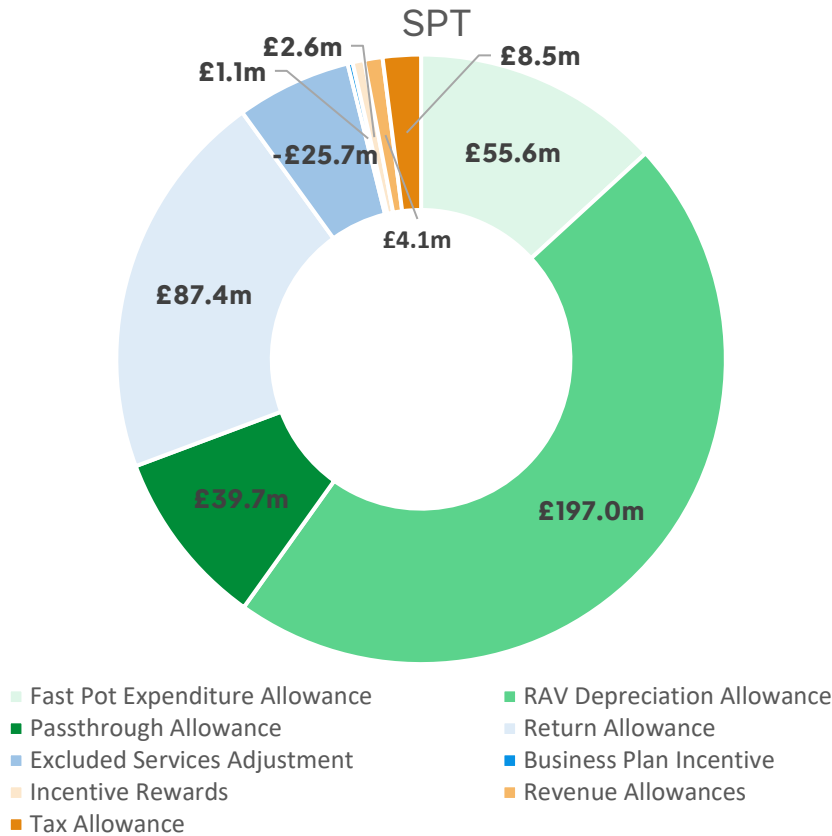
Performance incentives are a large part of the price control regime to drive service, environmental and other policy goals. These are penalties or rewards received under the various regulatory incentive schemes, plus the element of the Network Innovation Allowance flowing through Regulated Revenue, and true ups of Allowed Pass-Through costs. The main incentives are Quality of Connections, Insulation and Interruption Gas emissions incentive and the Energy Not Supplied Scheme (IIS).

Legacy allowed revenues are revenues in relation to performance in the previous RIIO-T1 price control where revenues functioned on a 2-year lag between performance and revenue so, for example, incentives performance in the last two years of the RIIO-T1 price control (2019/20 and 2020/21) are collected in allowed revenues in the first two years of the RIIO-T2 price control (2021/22 and 2022/23). Legacy revenues include true-ups for totex over or under spend, tax allowances, inflation, incentives, passthrough items and over or under recovery of revenues in the RIIO-T1 period.

**SPT** revenues for customer tariffs are set 3 months in advance, based on forecast volumes of customer usage, and provided to energy suppliers for inclusion in customer bills. However, the revenue **SPT** collects is based on how much energy customers use and is billed by suppliers. Any under or over recovery of revenues against our allowances are adjusted through future years' revenues. This is the Under/(Over) recovery, and K factor is the true up of the previous years under/(over) recovery.

### Base Revenue Breakdown

This is the largest element of **SPT's** Regulated Revenue. **SPT's** 2022/23 Base Revenue was **£368.9m**. The chart below shows the breakdown of this:



Under the RIIO framework, **SPT** receives a Totex allowance, ~15%<sup>1</sup> of which is received in the year incurred; this is the **Fast pot expenditure allowance**. The remaining ~85% is added to the Regulatory Asset Value (RAV) and funded over time (45 years) through the **RAV depreciation allowance**.

**Passthrough allowances** relate to costs recovered on a ‘pass through’ basis; these include business rates and pension deficit payments.

**Allowance for return** is calculated using the cost of capital and comprises an indexed allowance for the cost of debt and an allowance for the cost of equity as set at the start of a price control period.

**Excluded services adjustment** is the removal of excluded services revenues from the regulated revenue as they relate to customer connection projects which are collected separately.

**Business plan incentive** is agreed by Ofgem and relates to the reward we receive for the quality of our RIIO-T2 business plan submission. Other **incentive rewards** include rewards (or penalties) for meeting or exceeding customer service, connections, environmental or other objectives.

**Other revenue allowances** include allowances for other initiatives and innovation projects, such as our Net Zero fund to play our part in achieving the government’s net zero ambitions.

The **Tax Allowance** allows network operators to recover the current regulated tax charge, calculated by Ofgem’s methodology.

<sup>1</sup> Capitalisation rate applied to “Baseline” expenditure (84%) differs from the rate applied to “Uncertain” expenditure (85%), therefore the actual Fast pot/slow pot rate applied varies depending on the level of baseline/uncertain expenditure in a given year.

## RORE BREAKDOWN

Our overall Return on Regulatory Equity (RoRE) forecast for the RIIO-T2 period is **7.4%** based on Ofgem's notional gearing calculation (**7.7%** based on actual gearing) which we believe is a fair and reasonable return on equity for a company expecting to over-deliver on its business plan, over the long term in which it is realised.

<b>SPT RIIO-T2 RoRE</b>	<b>Notional Gearing</b>	<b>Actual Gearing</b>
	<b>2022/23</b>	<b>2022/23</b>
Allowed Equity Return	4.7%	4.9%
Totex Performance	0.0%	0.0%
Business Plan Reward	0.1%	0.1%
Output Incentives and Innovation	0.3%	0.3%
<b>RoRE - Operational Performance</b>	<b>5.1%</b>	<b>5.3%</b>
Debt Performance	2.2%	2.3%
Tax Performance	0.1%	0.1%
<b>RoRE - Including Financing &amp; Tax</b>	<b>7.4%</b>	<b>7.7%</b>

### Allowed Equity Return & BPI Reward

The Allowed Equity Return percentage is set before the beginning of the RIIO-T2 price control.

The level of return was set at **4.25%** for TOs (on a notional gearing basis), based on prevailing market rates at the time, and is set to incentivise shareholder investment in the networks that is required to replace and expand network assets to deliver for current and future customers. Shareholder investment is key to plug the funding gap for the investment required versus the revenue currently being collected from customers.

The Business Plan Reward we receive is a reflection of the quality and comprehensiveness of our business plan submission setting out the outputs we will deliver and the expected cost over the 5-year price control period.

### Totex

Forecasts for **SPT** have consistently been prepared based on fully delivering our outputs for customers, managing emerging asset risks on our networks, and in line with our long-term asset management strategy. As outlined in previous years, reviews of our investment plan have led to a reprofiling of our expenditure and outputs across categories in **SPT** over the RIIO-T2 five-year period. Following our submission of the 2018/19 regulatory reporting pack, we undertook a comprehensive review of our RIIO-T1 business plan. This included the evaluation of the business challenges that we foresee for the remainder of the RIIO-T2 price control period.

There has been significant change within the energy landscape since the submission of our RIIO-T2 business plan in December 2019. We have seen significant developments in offshore wind generation projects seeking to connect in Scotland and an increasing prevalence of battery storage, as well as onshore wind and solar generation. We created our RIIO-T2 plan with the flexibility to respond to this changing landscape and have successfully adapted our plans accordingly. We recognise this trend will continue throughout RIIO-T2 and beyond and will

continue to support the UK Government and devolved Governments in enabling and delivering on their Net Zero objectives.

Our current forecast total expenditure (Totex) over the five years of RIIO-T2 is £2.4bn<sup>18/19 prices</sup>. This is in line with our RIIO-T2 allowances. We are forecasting we will deliver efficiencies through our approach to project delivery and innovation, however we are also experiencing upward pressure in market pricing and supply chain impacts, which are inhibiting our ability to realise these efficiencies.

In the second year of RIIO-T2, 2022/23, our Totex expenditure was £236m, with investment in new infrastructure and asset renewal £140m. Overall, during the RIIO-T2 period, the position relative to allowance will vary, reflecting changes in project delivery profiles since the Business Plan was submitted and the evolving view of Generation Connections and Uncertainty Mechanisms. We have seen a trend of increasing investment over the last few years and are forecasting a continuation and acceleration of this trend throughout RIIO-T2 and beyond.

With regards to our Load expenditure, there were five windfarms commissioned in the reporting year, delivering an additional 484MW of renewable generation capacity. Of this, two schemes contribute to T2 baseline target 175MW of 544MW (cumulative 43%). In addition, an additional 360MVA network capacity was added through two reinforcement schemes against the T2 baseline of 1781MVA (cumulative 27%). Overall, changes to the generation background and modifications requested by customers have resulted in three baseline schemes being fully customer funded. Based on actual/forecast outputs for these schemes, a minor reduction to baseline allowance of c£7m through the generation connections Volume Driver (LSpC3.11). All baseline generation connection schemes in T2 were onshore windfarms and with the changes to the CfD regime amongst other factors, we have seen impacts on reinforcements triggered by connections, which has led to several reinforcements being delayed until such time as the generation is ready to be connected.

In year 2 of RIIO-T2 we have continued to experience multiple factors impacting the delivery of our business plan in the Load Related area. We continue to see changes from customers in their connection dates as they experience similar issues to **SPT** with challenges in planning consents, landowner access and supply chain constraints for equipment.

Over the T2 period, the total non-load expenditure is expected to be £469m; around 2% higher than the baseline allowance of c£458m. We continue to deliver T2 planned outputs, however, we are experiencing significant uplift in market costs and much longer delivery periods for materials and equipment. This has impacted our delivery profile, resulting in revisions to our forecasts. One of the major non-load projects adversely impacted by a Public Inquiry is Glenlee-Tongland OHL modernisation. This contributes c10% to our total NARM outputs; it is anticipated that complete delivery will, now, not be achieved until c2028. Notable outputs include the completion of both circuits on the ZA 400kV OHL route major refurbishment which was in line with programme and budget.

Like our load programme, we are also experiencing increasing costs due to inflation, commodity prices and global demand for electrical goods. This is placing significant pressure on costs and opportunities to improve efficiency, are continually being sought. These include refining our contracting models in conjunction with the supply chain and implementation of BIM within our design processes. To undertake asset refurbishment or replacement, most assets require to be switched out of service. With increasing constraint costs due to energy prices, as well as outages in other parts of the network, we proactively work with the ESO to coordinate our plans. This has led to some projects being re-scheduled to fit in for outages across the T2 period. The interaction with Load related activity has also had a material impact on the delivery of the plan in 2022/23 with the outages for HNNO being re-scheduled which has prevented several non-load projects from proceeding.

Overall, we have seen progress to date across all areas, and continue to focus on the challenges to help us achieve our RIIO-T2 objectives successfully

### Incentives

On a notional gearing basis, total incentives contribute **+0.3%** to **SPT** RoRE over the RIIO-T2 period.

SPT Output Incentive Rewards (£m <sub>18/19 prices</sub> )	SPT		
	2022/23	Cumulative	RIIO-2 Forecast
Reliability	1.3	2.7	6.1
Emissions	1.2	2.3	6.5
Quality of Connections Survey	0.7	1.0	5.3
SO-TO Optimisation	2.1	2.5	2.5
Timely Connections	-0.0	0.0	0.0
<b>Total Incentives</b>	<b>5.3</b>	<b>8.5</b>	<b>20.3</b>

In 2022/23 we added **£5.3m<sub>18/19 prices</sub>** to our earned incentive reward for going above and beyond delivering a safe, secure, and reliable service to our customers and meeting our stakeholders' needs. We have forecast a further **£15m<sub>18/19 prices</sub>** during the remaining years of RIIO-T2 resulting in total forecast incentive reward of **£20.3m<sub>18/19 prices</sub>** in RIIO-T2.

### Quality of Connections Satisfaction Survey

All Connections Customers were surveyed at key milestones known as the 'Moments that Matter' throughout the connections process. There are six 'Moments that Matter',

1. Pre-application Engagement
2. Application Process & Offer
3. Development Phase
4. Delivery Phase
5. Outage Management
6. Connected Customer Reviews

The surveys were undertaken on our behalf by a specialist third party 'Taylor McKenzie Research & Marketing Ltd' and carried out in line with our scope and provision of contact information from the relevant business area responsible for each MTM.

The score for overall satisfaction across all MTM's is 8.23, demonstrating a good level of satisfaction from our customers. Connected Customers MTM 6, gave the highest score overall this year (9.56) whilst those customers in the Application Process & Offer stage MTM2, scored lowest (7.61).

Although customers at the Application Process & Offer stage MTM2 had the lowest levels of satisfaction 7.61, this is an increase on last year's performance of 6.64. Pre-application engagement MTM1 customer satisfaction dropped back slightly from 8.55 in 2021/22 to 8.33.

We have identified several areas of focus and will continue to review our customers feedback to improve the overall customer experience during the connections process and build on this year's performance.

### **Insulation and Interruptions Gas Emissions (IIG)**

We have stated in our RIIO-T2 business plan we will only use SF6 where alternative IIGs are not viable. This currently means all our 132kV projects will be specified SF6 Free and where we have GIS installations at 275 & 400kV, the GIB associated with these sites may be SF6 free where viable.

We are currently outperforming our targeted IIG emission for 22/23 and are forecasting to continue this trend across the RIIO-T2 period.

### **Energy Not Supplied**

Energy Not Supplied (ENS) covers the number of transmission incidents, including exceptional events, and their MWh volumes that result in a loss of supply for our customers, which was introduced for the RIIO-T1 reporting period and has been amended for RIIO-T2.

Incentivised Energy Not Supplied (net) in 2022/23 was 0 MWh compared to the target of 130 MWh. This was a significantly improved performance on the last year of RIIO-T1 of 47.98MWh. Whilst performance against target is good it should be noted that there were no significant weather-related incidents in 2022/23 that impacted the **SPT** network.

One loss of supply Incident has been claimed by **SPT** as an Exceptional Event and **SPT** are awaiting response regarding this claim. This incident occurred on the Bathgate-Bonnybridge-Drumcross 132kV circuit when the circuit tripped due to an extended mobile crane arm coming into contact with the double circuit 132kV overhead conductor, resulting in the trip of both circuits. The total MWh for this Incident was 3.81 MWh.

The volume of non-Incentivised incidents for 2022/23 was 3 which is a 25% reduction from 2021/22.

### **Timely Connections**

Timely connections is a penalty only incentive that covers (in area) transmission connection offers received by SP Transmission during the RIIO-T2 period

For 22/23, 219 relevant offers were issued in the period and 217 offers were delivered in line with licence required timescales. As a result, 2 offers were deemed to be "late" which has resulted in a small penalty for 22/23. This figure shows a massive increase in offers when compared to the previous year where 118 offers were issued in the corresponding period.

We are targeting to delivery all relevant offers in line with licence requirements over the remainder of the RIIO-T2 period and so are currently forecasting no penalty.

### **SO-TO Optimisation**

In this second year, three solutions have been delivered by **SPT** under STCP11-4 as a result of the SO:TO Optimisation Incentive, at a total cost of £0.2m. The ESO's estimated constraint cost savings for these three solutions totals £20.1m. The incentive is delivering significant additional consumer benefit at very low cost, as well as driving **SPT** to develop our process to identify STCP11-4 solutions.

In addition to the significant constraint cost savings to GB consumers, the incentive is driving wider benefits to processes and outage planning approaches. Given that there is cost associated with identifying potential solutions under STCP11-4, the available incentive reward for successfully delivered solutions is enabling process change within **SPT's** outage planning and network planning functions to identify and develop potential solutions.

## Innovation

**SPEN** is dedicated to becoming the Utility of the Future, embedding innovation throughout our business in order to respond to the opportunities and challenges presented by the UK's evolving energy landscape. These changes mean we must look at new innovative solutions to ensure that we can continue to deliver value to customers whilst ensuring that costs are fair and equitable for all. We stand ready to facilitate the Government's low carbon aspirations and are innovating to ensure that the smart networks of the future are flexible, resilient, and accessible to all.

Our innovation strategy describes how we plan to innovate to meet the challenges and deliver benefits to customers and details the processes we intend to follow to ensure that we spend customers' money in the most efficient and effective manner. The strategy outlines how we will prioritise our innovation activities to ensure that our customers benefit from improved levels of service, whilst ensuring the network is flexible and resilient to changing future requirements. It outlines our three core priority areas, developed in conjunction with stakeholders, and goes on to highlight the opportunities and challenges we aim to overcome.

Our core priority areas:

1. Deliver Value to Customers
2. A Smarter Flexible Network
3. Sustainable Networks

Within each priority area, we highlighted the opportunities and challenges that our stakeholders have told us should be the focus of our attention over the remainder of this price control period through until 2030. We outline how interested parties can get involved through different platforms and help develop our Innovation Strategy. We will continue to engage with stakeholders and communities to ensure our Innovation Strategy is developing according to our customers changing needs.

### Network Innovation Allowance (NIA)

The Network Innovation Allowance provides limited funding to RIIO NWO's to fund smaller technical, commercial, or operational projects directly related to the NWO that have the potential to deliver financial benefits to the NWO and its customers

#### Allowable Expenditure

Allowable NIA Expenditure is the total expenditure that can be recovered from the NIA. It includes Eligible NIA Expenditure (90% of the total expenditure incurred)

The below summarises key aspects of the NIA portfolio at the end of 2022/23:

- 14 live projects
- 11 collaborative projects, 3 of which are **SPT** lead,
- 11 projects undertaken solely by **SPT**

**SPT** will be allowed to recover £13.5m<sub>18/19 prices</sub> of allowable expenditure through TUoS charges across the RIIO-T2 period.

#### Unrecoverable Expenditure

Unrecoverable NIA Expenditure cannot be recovered from Allowable NIA Expenditure. Unrecoverable NIA Expenditure is any NIA Project Expenditure arising from a failure to conform to technical requirements or arising from an increase in payments associated with a reduction in standards of performance. No Unrecoverable Expenditure has been incurred to date, nor is forecast for the remainder of RIIO-T2.

#### Strategic Innovation Fund (SIF)

The SIF will support network innovation that contributes to the achievement of Net Zero, while delivering net benefits to energy consumers. It will coordinate network innovation funding with



other public sector funding initiatives, thereby ensuring greater flexibility and strategic alignment in innovation funding, and eliminating both unnecessary duplication and funding gaps.

Ofgem is the decision-maker in relation to the SIF. However, to support the SIF's operation, Ofgem is partnering with UK Research & Innovation (UKRI). UKRI's role is to deliver the SIF in line with this SIF Governance Document - administering the funding programme, monitoring the delivery of Projects, making recommendations to Ofgem on operational matters, supporting third-party innovators and, where possible, supporting successful Projects to become business as usual activities.

**SPT** is working with numerous third parties to realise projects that help tackle some of the UK's biggest and most complex challenges in the push towards the UK achieving its net zero emissions targets.

These are categorised in the following areas:

- Whole System: Fast Flex and Asset Reuse and Recovery Collaboration
- Data and Digitalisation: Digi-GIFT, Predict4Resilience and EnTWINe
- Heat: Flexible Heat and Heat Balance
- Net Zero Transport: A Holistic Hydrogen Approach to Heavy Duty Transport and Resilient and Flexible Railway Multi-Energy Hub Networks for Integrated Green Mobility

This exciting and ambitious portfolio of innovation projects will help Energy Networks deliver a resilient, flexible and agile electricity network that facilitates the transition to low-carbon technology for the country.

SIF is the successor mechanism to the Network Innovation Competition (NIC) from RII0-T1. SP Transmission currently has funding for 12 SIF projects to date (22/23) with 9 completed within the year.

## Financing

Actual finance cost and debt figures are populated from our underlying reporting systems with further details reported within our published Statutory accounts on a calendar year basis. This information can be found on our website at:

[Annual Reports & Accounts - SP Energy Networks](#)

Forecast finance costs and debt figures are derived from business long term plan projections of cash requirements and assume that all new debt/refinancing will be via an intercompany on demand loan at a variable rate plus margin.

We have a licence derogation in place as agreed with Gas and Electricity Markets Authority (GEMA). SP Distribution Plc and SP Transmission Plc provide guarantees to Scottish Power UK plc with respect to their external debt holders outstanding as of October 2001.

The overriding rationale of the debt guarantee provided by SP Distribution and SP Transmission to the then Scottish Power UK plc external debt holders, at the time of business separation in October 2001, was to ensure that the existing debt holders, effectively had access to the same asset base, and cash flows that they would have had pre that imposed asset separation and that they had originally lent to. The companies providing the guarantees, ultimately, being responsible for the repayment of both the interest and principal of that guaranteed debt. If the guarantees were ever called the companies would assume that external debt obligation and therefore be required to generate sufficient cash flows to satisfy the external debt holders' requirements.

As mentioned above, we believe there is a knowledge gap in the understanding of network companies' financial performance detailed within the report. It should be highlighted that companies annual CoD allowance does not cover the actual annual cash out flows for interest,

due to the CoD allowance being set on a real basis while the majority of companies' debt is on a nominal basis. To this end we have included our own view of financing performance within the narrative above. Where our own view details the cash performance impact over the 5-year period, Ofgem's view shows an estimated RIIO-2 performance over the full depreciation period. We believe other network companies, as well as Ofgem should adopt this cashflow performance approach.

To reiterate further, we believe Ofgem's current methodology misrepresents the performance over the full 45-year depreciation period as in year returns, this is of particular issue in the current high inflationary environment.

## Tax

We receive a tax allowance calculated through the Price Control Financial Model (PCFM), based on a fixed split percentage of tax pool additions, and forecast nominal financing costs ('net interest paid').

In order to compare like-for-like performance against the allowance, we have revised the tax calculation updating for actual capital allowances and financing costs. SPT have an accounting period to December, therefore our taxable profits, capital allowances and liabilities are on a calendar year basis. To convert our accounting period reported values to compare with a regulatory year allowance, we have assumed a 25%/75% split of capital allowances to date.

Most of our assets are Special Rate Pool items and have attracted a rate of 6% from 1st April 2019. However, with the introduction of the Super Deduction on main rate and special rate items in both 2021/22 and 2022/23 (for first year additions only) this rises to 50% for the special rate pool items, therefore lowering our tax bill. However equally our tax allowance has lowered in tandem, save for a small deadband tax adjustment in the PCFM providing a small uplift to allowance. This is also set to continue across the RIIO-2 period with the introduction of "First Year Allowances" by the UK government from 2023/24 to 2025/26.

Our 2022 CT600 is not yet due for submission to HMRC, consequently the 2021/22 value in [R8 – Tax, E33] is a forecast to compare against the allowance. The additional other adjustments will be trued up in due course.

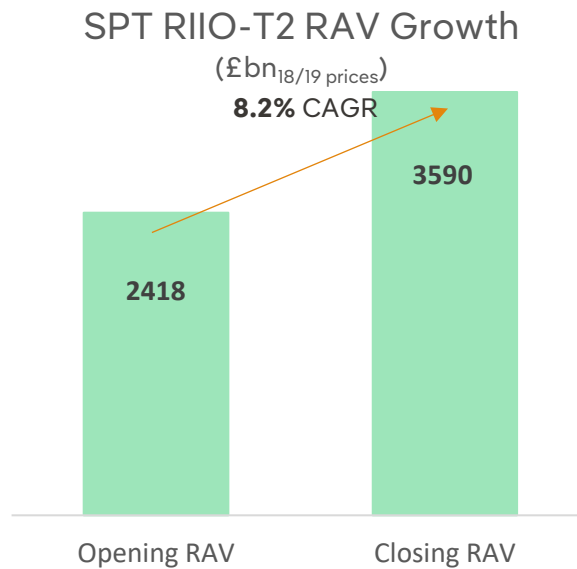
SPT Tax Position (£m18/19 prices)	SPT	
	Cumulative	RIIO-T2 Forecast
Liability	34.7	34.7
Allowance	37.6	40.9
Performance	2.9	6.2

## RAV

The regulatory asset value (RAV) is a key building block of the price control and RoRE performance measure. RAV represents the value upon which the companies earn a return in accordance with the regulatory cost of capital and receive a depreciation allowance. Additions to the RAV are calculated as a set percentage (~85%) of totex, while in simple terms, the depreciation in a given year is formed of 1/45<sup>th</sup> of additions in all previous years. The RAV is the mechanism by which return allowances for shareholder investment and financing are collected over the long term.

The latest Price Control Financial Model (PCFM) was published in November 2022 following the Annual Iteration Process (AIP). The AIP PCFM is designed to update future revenues as a result of both past and forecast performance. Therefore, along with the inclusion of our enduring value adjustments the RFPR reflects our current best estimate of RIIO-T2 performance.

Because of the scale of investment required to deliver a network for today's and future customers we see the RAV value growing across the period:



SPT report a compound annual growth rate of 8.2%, an 48.5% increase from opening T2 RAV of £2,418bn<sub>18/19 prices</sub> to an T2 closing RAV of £3,590bn<sub>18/19 prices</sub>. This is driven by the large scale of investment required in the UK's transmission system as the demand to move electricity around the country, and the continent, in large volumes has grown and is expected to grow substantially in the coming years in line with increasing renewable generation connections amid the drive towards net zero.

# Operational KPI

## OVERVIEW

The key strategies for the company to the end of the RIIO-T2 price control period and beyond are outlined in our strategic goals.

### **A sustainable, Net Zero future**

We will take the lead to build a healthier, more accessible energy model – one which leaves the carbon economy behind. We will meet carbon targets, customers' low-carbon ambitions, and make a large, proactive contribution towards Net Zero

### **Increase efficiency through constant innovation**

We will continue to improve our performance through a continual cycle of innovation. With smarter solutions, we can do more with less – deploying new technology, processes, and ways to share data. Innovation will help us deliver uninterrupted supply, faster connections, and meet the ambitions of consumers, network users and wider stakeholders.

### **Adapt our world-class, resilient network**

This is a critical time for networks. Demand is changing, generation is evolving, and new threats are emerging. We will adapt our world-class network to meet these challenges, including extreme weather, cyber security, and black start events – delivering ever-higher performance for consumers, network users and wider stakeholders

### **Keeping network users and consumers at the heart of our decisions**

We will listen and learn even more from our stakeholders. This will allow us to continue to raise our efforts as we work to improve lives, create jobs, and protect vulnerable consumers. In everything we do, we aim to do more. We will be reporting strong performance against our commitments and are performing on, or ahead of, targets in our approach to safety, reliability and availability, and customer service.

A detailed overview of our Output performance is provided as part of our Transmission Annual Performance Report for 22/23 which was published in September 2023 and can be found on our website at:

[Transmission Annual Performance Reports - SP Energy Networks](#)

# RFPR Tables

This section provides context and information on the specific tables within the RFPR excel template. Please refer to the below section as you navigate through the excel template for assistance in understanding the content of the relevant tabs.

## RI RORE

The purpose of this worksheet is to produce a view of the TO's Return on Regulatory Equity (RoRE) which uses a consistent approach across sector and regulated TOs.

The RoRE is presented using both the notional and actual gearing and reflects both actual and forecast performance over RIIO-T2. The table provides a RoRE value for; each individual year of RIIO-T2, cumulative actuals to date and for the full price control period (actuals and forecast).

## R2 REVENUE

The purpose of this worksheet is for the TO to report allowed and actual revenue and reconcile this to the value reported in the regulatory accounts (Underlying accounting records from 2020/21 onwards). In addition, the worksheet also provides a reconciliation for regulated network profit to statutory accounts.

Therefore, this table contains the actual revenue values over the first and second years of RIIO-T2 for **SPT**. There is no requirement to forecast revenue.

The first section shows a breakdown of Allowed Revenue calculated in accordance with the RIIO-T2 licence. The main input values are:

- Calculated Revenue,
- AIP Adjustment term,
- Adjusted Revenue,
- Legacy Allowed Revenue,
- Correction factor (K term).

Collected Regulated Network Revenue (RR term) is then compared with the Allowed Revenue to derive the Under/Over recovery of revenue for each year of RIIO-T2.

The final revenue section of the table then provides a reconciliation between the revenue recovered in year and the total turnover/Revenue as per the Income Statement from the regulatory accounts (Underlying accounting records from 2020/21 onwards).

The second part of the table seeks to compare the components of network profits (such as Operating costs, depreciation, interest, depreciation & tax) to the values published in the the regulatory accounts (Underlying accounting records from 2020/21 onwards). Each of these elements are covered off in the corresponding RFPR table to show how they reconcile to the published values (such as R3 Totex which covers the difference between regulatory and statutory Opex).

The main difference between the Net Profit values per the Statutory Accounts and related to the Regulatory Business is due to the impact of Deferred Taxes on the Statutory accounting profits. Furthermore there are smaller impacts due to; Directly Remunerated Services revenues of £25m being included in the Statutory value but not included as part of the regulatory revenue above

(RRt) and due to the impact of our enduring value adjustments for "Timing" on totex performance which reduce the regulatory tax charge (as lower assumed totex allowances will reduce revenues and therefore taxable profits in the PCFM)

### **R3 REC TO TOTEX**

The purpose of this worksheet is twofold:

- For the NWO to report their Totex performance against the RIIO-T2 allowance adjusted for Enduring Value.
- For the NWO to reconcile their actual costs from their statutory accounts with their actual reported annual Totex. As a result, no information for forecast years is required in this table.

In relation to the first section, this contains a view of **SPT's** current and forecast expenditure performance against the allowances set as part of the RIIO-T2 price control. Any under/overspend is then shared with the UK consumer via the Sharing factor which is currently 49.0% for RIIO-T2. The table also includes any Enduring Value adjustments that are applied to help understand NWO's performance. An Enduring Value adjustment is an adjustment made to in year performance that impacts the return and RAV of an NWO. Examples of Enduring Value Adjustments include:

- future uncertainty mechanism claims.
- expected adjustments for close out mechanisms (e.g., Price control deliverables).
- timing differences of delivery of outputs (e.g., volume drivers).
- known changes to future output delivery (e.g., volume drivers); and
- known adjustments not yet made to the PCFM (e.g., mid- period review decisions).

**SPT** has an enduring value adjustment to smooth out the in-year under/over performance to reflect the timing of delivery of outputs. This removes any "noise" from the performance value to show true performance across RIIO-T2.

In relation to the second section, this contains a reconciliation of the actual expenditure (both Capex & Opex) incurred in a given regulatory year with the expenditure reported within our regulatory accounts (Underlying accounting records from 2020/21 onwards). Reconciling items are listed within the tab and arise due to the reporting rules being different for our regulatory reporting compared with those set out for our statutory accounts. For example, the treatment of reporting of right of use assets differs between regulatory and statutory accounting rules.

### **R4 OUTPUT INCENTIVES & OTHER REVENUE**

The purpose of this worksheet is for the TO to report their annual actual and forecast performance against the RIIO-T2 price control incentives as well as its Other Revenue Allowances (ORAs).

The first section of the table contains a breakdown of performance against each of the RIIO-T2 incentives in 18/19 prices on a pre-tax basis. These values relate to the year the incentive has been (or is forecast to be) operationally earned. This section is then repeated for Other revenue allowances, also on a pre-tax basis.

A summary of each Output delivery incentive is outlined below:

#### **Energy Not Supplied (ENS)**

The purpose of this incentive is to encourage the TOs to improve network reliability in an efficient way by managing short-term operational risk. This benefits consumers by improving the reliability of electricity supply and reducing the negative impacts of disruption on customers. The incentive is measured annual by comparing MWh's lost versus a pre set target for RIIO-T2 which values under this target resulting in a financial reward for the TO's.

#### **Insulation and Interruption Gas Emissions (IIG)**

The purpose of this incentive is to encourage a reduction in leakage of SF<sub>6</sub> and other IIGs from assets on the transmission network, and to support the transition to low greenhouse gas alternative IIGs. The benefits will be a reduction in the volume of harmful leakage of greenhouse gas emissions from GB's Electricity Transmission network. The incentive/penalty for a given year is calculated by comparing actual IIG emissions leakage against a pre-set annual target with emissions below the annual target rewarded and those above the target penalised.

#### **Timely Connections**

The purpose of this incentive is to encourage the efficient timely delivery of connection offers to applicants (via the ESO) for new connections to the Transmission Network. This benefits consumers and network users by raising quality of service to connecting customers, improved stakeholder engagement between connection customers and network companies, and streamlined new connections. This incentive is a penalty only mechanism based on the timescales delivered for each connection offer provided by a TO in a given year.

The target date for each offer is determined by the date of receipt of a compliant application and application fee from the developer. This is defined as the 'clock start date' This sets the target date by which we must deliver a final offer to NGENSO. Issuing the final offer or "transmission owner connection offer (TOCO)" by this date is a timely connection.

#### **Quality of Connections Satisfaction Survey**

The purpose of this incentive is to encourage companies to improve the quality of service delivered to connections customers. This benefits consumers by improving the quality of service delivered for current and future connections customers, thereby enabling the transition to a low carbon economy . The incentive/penalty for each TO is calculated annually by comparing the in year Quality of Connections satisfaction surveys score (as collected and validated by a third party) to the pre-set RIIO-T2 target of 7.7/10 with an incentive provided for scores higher than the target and penalties for scores below.

#### **Environmental Scorecard**

The purpose of this is to incentivise the TOs to outperform selected RIIO-2 targets in their Environmental Action Plan (EAP). This benefits the consumer by further reducing carbon emissions, improving the environment, and reducing resource use for the benefit of existing and future consumers. The incentive/penalty will be calculated by tracking percentage change set against pre-set performance thresholds in the following impact areas, where it is materially relevant to the TO's licence area:

- Operational transport emissions
- Business mileage emissions
- Waste recycling
- Waste reduction
- Water use reduction
- Environmental value of non-operational land
- Biodiversity net gain on new network projects

.This incentives however has not been activated by Ofgem after the first two years of the price control as no thresholds/targets have been decided.

### **SO:TO Optimisation**

A two-year trial incentive to encourage the TOs to provide solutions to the ESO to help reduce constraint costs according to the STCP11-4 procedures. The benefit of this incentive will be a reduction in constraint costs based on to consumers. The incentives provides the TO with 10% reward of the forecast constraint cost savings from all solutions provided in that regulatory year up to a cap of £2.5m. Ofgem has decided that this incentive should continue throughout the RIIO-2 period with further details on its operation to follow.

The remaining section of this table covers off our Other Revenue Allowances (ORA's) and contains the actual and forecast performance of both **SPT** in relation to the main innovation mechanisms as set out in the RIIO-T2 licence. These mechanisms are Network Innovation Allowance (NIA), Carry over Network Innovation Allowance (CNIA) and Strategic innovation Fund (SIF).

### **Network Innovation Allowance (NIA)**

The Network Innovation Allowance provides limited funding to RIIO-ET2 NWO's to use to fund smaller technical, commercial, or operational projects directly related to the NWO's network that have the potential to deliver financial benefits to the NWO.

### **Carry over Network Innovation Allowance (CNIA)**

Carry over Network Innovation Allowance (CNIA) are eligible NIA Projects that started in RIIO-T1 as calculated by the licensee in accordance with the RIIO-1 NIA Governance Document and reported to the Authority in accordance with Standard Condition B15.

### **Strategic innovation Fund (SIF)**

The Strategic Innovation Fund is Ofgem's successor to the NIC fund in RIIO-T1. **SPT** currently has 12 projects in RIIO-T2 as outlined above.

## **R5 FINANCING**

The purpose of this worksheet is for the TO to report their annual actual and forecast Net Interest charges as per the Regulatory (RIIO-2) definition. Therefore, this table contains the annual actual and forecast Net Interest expense for **SPT** as per the statutory definition and then converts/reconciles these to the Regulatory (RIIO-2) definition.

Forecast finance costs are derived from business long term plan projections of cash requirements and assumption that all new debt/refinancing will be via an intercompany on demand loan at a variable rate plus margin.

The table then seeks to compare this charge against the Cost of Debt (CoD) allowance as set out in the latest Price Control Financial Model (PCFM). To compare these values, Ofgem adjusts the in-year interest charge by removing inflation to match the real CoD allowance. Performance is assessed on both an Actual & Notional gearing basis to allow for consistent performance reporting across all TOs.

As mentioned above, we believe there is a knowledge gap in the understanding of network companies' financial performance detailed within the report. It should be highlighted that companies annual CoD allowance does not cover the actual annual cash out flows for interest, due to the CoD allowance being set on a real basis while the majority of companies' debt is on a nominal basis. To this end we have included our own view of financing performance within the Financial KPI narrative above. Where our own view details the cash performance impact over the 8-year period, Ofgem's view shows an estimated RIIO-1 performance over the full depreciation period. We believe other network companies, as well as Ofgem should adopt this cashflow performance approach.



## R6 NET DEBT

The purpose of this worksheet is for the TO to report their annual actual and forecast Net Debt as per the Regulatory (RIIO-2) definition. Therefore, this table contains the annual actual and forecast Net Debt positions for **SPT** over the RIIO-T2 period as per the statutory definition. These values are then converted to reflect the Regulatory (RIIO-2) definition as set out in the RFPR RIG's. As with the interest charges, forecast Net debt figures are derived from business long term plan projections of cash requirements and assumption that all new debt/refinancing will be via an intercompany on demand loan at a variable rate plus margin.

The table then summarises the annual gearing % based on the current view of TO Regulatory Asset Value (RAV) as shown in table R7 – RAV. This also allows the calculation of the delta between Actual reported gearing and the Notional gearing RIIO-T2 value of 55% for use in the R5 Financing tab.

## R7 RAV

The purpose of this worksheet is to identify an annual Regulatory Asset Value (RAV) position using the annual actual and forecast RAV as published in the latest PCFM. Therefore, this table contains annual actual and forecast Regulatory Asset Value (RAV) for each year of the RIIO-T2 period for **SPT**.

The starting position is therefore to take the RAV from the latest Price Control Financial Model (PCFM) available from the current Annual Iteration Process (AIP). These are then updated to ensure both Expenditure & Allowance values and by extension RAV additions and depreciation values reflect the current actual and forecast performance from the annual Regulatory Reporting Pack (as summarised in R3). A further adjustment is made to ensure that the Enduring value adjustments recorded in R3 are also accounted for in the RAV totals.

The adjusted closing RAV totals are then used to derive a summary of output values that are used in the calculation of performance in other tables (such as R1-RoRE, R5 Financing, R6 Net Debt, R8 Tax)

## R8 TAX

The purpose of this worksheet is for the TO to reconcile their CT600, actual corporation tax liability (pre- group relief), with the adjusted/forecast regulated tax liability. Therefore, this table contains a reconciliation of **SPT's** CT600 actual corporation tax liability (pre- group relief) with the adjusted/forecast regulated tax liability as calculated within the PCFM.

Adjustments are made to the actual/forecast tax liability to allow for comparison to allowance within the PCFM which is done on both an actual and notional gearing basis.

## R9 CORPORATE GOVERNANCE

The purpose of this worksheet is for the TO to:

- report actual dividends paid that relate to the regulated business
- report the executive directors' remuneration.

The first part of the table contains the actual dividend paid to date (i.e.21/22 to 22/23). There is no requirement to forecast future dividend payments.

The second part of the table covers off the remuneration of executive directors for the SP Transmission business for the 22/23 reporting year. Further details can be found in the “Corporate Governance Requirements” section below

## **R10 PENSIONS**

The purpose of the first section of this worksheet is for the TO to report a summarised position of their pension deficit for their defined benefit schemes. Therefore, figures in R10 Pensions & Other Activities reflect the total of established and incremental TO costs associated with both the ScottishPower Pension Scheme (SPPS) and the Manweb Group of the ESPS (Manweb). These actual deficit values are then compared to the allowance values that were derived from the latest valuation (Triennial actuarial valuation) which took place on the 31/03/19. The final section of the table sets out the key pension scheme parameters as at the last valuation in 18/19 prices.

The purpose of the second section of this worksheet is to capture any Ofgem related fines and penalties incurred by the TO over the RIIO-T2 period to date.

This section deals with any penalties or fines issued by Ofgem (which would be published on Ofgem’s website) in relation to any investigation undertaken by Ofgem during RIIO-T2. **SPT** has no fines, penalties, or GS payments.

# Data Assurance Statement

Data assurance was conducted in accordance with SPEN's "Regulatory Submissions Procedure" developed and implemented to ensure compliance with Ofgem's DAG. The details of the accountabilities we have in place are contained in the SPEN NetDAR Submission, 31 March 2023, Section 1.3 Organisational Data Assurance Process.

Based on DAG methodology, a risk assessment was carried out on the submission and the result is as below:

Submission	Total Risk Score	Impact Score	Probability Score	Impact and Probability Breakdown
RFPR	Medium	3	2	<p><b>Impact:</b></p> <ul style="list-style-type: none"> <li>Financial category was allocated '3'</li> <li>All other categories were allocated '1'.</li> </ul> <p><b>Probability:</b></p> <p>Reporting Assessment:</p> <ul style="list-style-type: none"> <li>Complexity and Manual intervention '4'</li> <li>Completeness '2'</li> <li>Reporting rules '3'</li> </ul> <p>Control Framework Assessment:</p> <ul style="list-style-type: none"> <li>Control activities '1'</li> <li>Experience of personnel '2'</li> <li>Historical Errors '2'</li> </ul>

The minimum DAG was applied per table and based on the Total Risk Score and amount of data in the submission, we selected an Internal Data Audit and Director Sign-off as additional assurance. Also, due to parts of the submission being published, CEO Sign-off was deemed relevant.

The Internal Data Audit was performed by our Licence and Assurance Team and our Finance Department who are independent from table preparation. Assurance was performed on a sample basis on the following tables in the submission. No findings were noted.

Table No.	Table Name
R3	Totex & Reconciliation
R5	Financing
R6	Net Debt

In summary, the following assurances were completed:

- Method Statement
- Second Person Review

- Senior Manager Sign-off
- Internal Data Audit
- Director Sign-off

# Corporate Governance Reporting

The section covers the additional RIIO-T2 reporting requirement as set out in the RFPR RIG's on corporate governance.

To deliver its strategy, ScottishPower, and therefore Energy Networks, and so the Company, conducts business in a manner benefitting customers through balancing cost and risk, while delivering shareholder value and protecting its performance and reputation by prudently managing the risks inherent in the business. To maintain this strategic direction, ScottishPower develops and implements risk management policies and procedures, and promotes a robust control environment at all levels of the organisation.

As part of the Iberdrola Group, ScottishPower is developing a responsible and sustainable energy model which focuses on the wellbeing of people, the protection of the environment, and the economic and social progress in the communities in which ScottishPower operates. ScottishPower strongly believes that effective and meaningful engagement with stakeholders, especially employees, is key to promoting its success and values.

Meaningful engagement with stakeholder groups supports the ethos of section 172 of the Companies Act 2006 which states that directors should have regard to stakeholder interests when discharging their duty to promote, in good faith, the success of the Company for the benefit of its members as a whole.

ScottishPower, and therefore Energy Networks and the Company, has four key stakeholder categories: employees and customers; government and regulators; suppliers and contractors; and community and environment. Behind these stakeholders are millions of people, and thousands of institutions, organisations and groups. All of them, with their decisions and opinions, influence ScottishPower, and they are also affected by ScottishPower's activities. In addition, these stakeholders interact with each other, creating a universe of relationships that ScottishPower needs to manage in order to achieve a better understanding of its operating environment and to deliver a more sustainable performance across its activities.

Details of how ScottishPower, Energy Networks, and so the Company, engages with its stakeholders, and how these activities influence the Company's operations, are set out below in our SP Transmission Annual report 2022 within the Directors Report section.

[Annual Reports & Accounts - SP Energy Networks](#)

## Corporate Ownership and Governance Framework

The ultimate parent of the Company is Iberdrola, S.A. ("Iberdrola") which is listed on the Madrid stock exchange. The immediate parent of the Company is Scottish Power Energy Networks Holdings Limited ("SPENH"), the holding company of the Scottish Power Energy Networks Holdings Limited group ("SPENH Group" or "Energy Networks"). Scottish Power Limited ("SPL") is the United Kingdom ("UK") holding company of the Scottish Power Limited Group ("ScottishPower") of which the SP Transmission is a member. This structure is shown below:



Further details on SPEN’s & Iberdrolas group structure can be found here:

[Group Structure - Iberdrola](#)

SP Transmission does not apply a corporate governance code on the basis that it, as part of the SPENH Group, has adopted the rules and principles of the SPENH Group as they have been set by the board of directors of SPENH (“the SPENH Board”), in accordance with its terms of reference and the Policy for the Definition and Coordination of the Iberdrola Group and Foundations of Corporate Organisation (“the Group Governance Framework”), all of which are based on widely recognised good governance recommendations (“the SPENH Group corporate governance system”). Those rules and principles of the SPENH Group corporate governance system that applied to the SP Transmission as part of the SPENH Group during 2022 are set out as follows:

The terms of reference of the SPENH Board are published on [www.spenergynetworks.co.uk](http://www.spenergynetworks.co.uk) under ‘Corporate Governance’. ([Corporate Governance - SP Energy Networks](#))

The Group Governance Framework is published on [www.scottishpower.com](http://www.scottishpower.com) (“the SPL Corporate website”) under ‘Corporate Governance’/ ‘Governance and Sustainability System’/ ‘Corporate Governance’. ([Governance and Sustainability System - ScottishPower](#))

## Executive Remuneration Policies

The executive directors participate in the group's performance related Annual Incentive Plan and receive a bonus in the year under review. Entitlement to a bonus is dependent upon achievement of objectives set at a group, business and personal level. Business objectives are set annually based on what requires to be delivered by the business and progress is tracked against a scorecard. The objectives set include targets relating to service standards, which include customer minutes lost, customers interrupted and telephone response rate. These are set out below for directors of SP Transmission.

Role	Customer Service	Health & Safety	Investment Delivery	Performance & Governance
Chief Executive Officer	10%	5%	42%	43%
Director of Network Planning & Regulation	14%	14%	61%	11%
Director of SP Transmission	11%	18%	55%	16%

**SPT's** Executive Directors also participate in the Long-term Incentive Plan (LTIP), which is a performance share plan. Eligible directors are granted an award of shares expressed as a percentage of base salary. Before any amount of shares vest the Remuneration Committee must be satisfied that there has been sustained underlying financial and customer service performance. The final amount of shares, which vest, is dependent on performance over a 3-year period.

Further details can be found on our directors pay and standards statement below:

[Links directors pay and standards of performance 2022.pdf](#)

## Dividend Policies

The delivery of the strategy of the SPENH Group, of which SP Transmission is a member, requires the SPENH Group to conduct business in a manner benefitting customers through balancing cost and risk while delivering shareholder value and protecting the SPENH Group's performance and reputation by prudently managing risks inherent in the business. The Company's approved dividend policy is to pay a sustainable dividend to ordinary shareholders taking into consideration the impacts on current and forecast credit rating metrics and forecast profitability over a medium-term horizon.

As shown in the RFPR, we reinvest a significant portion of our profits back into the network to ensure an efficient, reliable and environmentally sustainable network. The Board of **SPT** ensures that it understands and considers shareholder views in order to preserve positive investor relations. In its capacity of providing oversight for the operational performance of the business, the Board also takes account of the forecast performance against performance targets, other RIIO-T2 output commitments and future requirements such as Accelerate Strategic Transmission Investment.

In addition, specific to the regulated companies is a consideration that any proposed dividend aligns with regulatory target capital structure.

The board of **SPT** approve a pre dividend certificate to Ofgem to confirm it is comfortable that the proposed dividend will not place the licensee in breach of Standard Licence Condition B7.

# Appendices

## Reconciliation between regulatory year end and statutory year end

In previous years, given that price controls are set on a March year end we would have reconciled to the March Year End publicised Regulatory Accounts. As of 2020/21, we have been given a derogation by Ofgem to not produce these as the intention of the RFPR was to replace these reports. Therefore, the financial values provided within the RFPR templates are sourced from our underlying accounting records. We still have an obligation to publish Statutory Accounts which are prepared on a calendar year basis. The main differences between these values and those published in the accounts will be due to the timing of expenditure and revenue differences. Our Statutory Accounts can be found on our website using the following link:

[Annual Reports & Accounts - SP Energy Networks](#)

## Enduring value adjustments

The enduring value adjustments we have made, and the methodology of these adjustments are embedded within this document. Therefore we have not explained them in this section separately.

## Basis of estimations and allocations

We do not consider our Regulatory Financial Performance Report to contain any estimates and allocations, nor does it include apportionments.

## Other relevant information

We do not consider any further information to be relevant in addition to the tables and this commentary.

We have provided our opinion above on a weighted average RoRE and consideration of other methods to be a more appropriate basis of evaluating performance.