



Introduction

This report¹ summarises the delivery and financial performance of onshore electricity transmission owner (TO) businesses under the RIIO² price control period from 1 April 2013 to 31 March 2021 (RIIO-ET1) in the following areas³:

- Achievement of annual output targets and performance in the annual period from 1 April 2020 to 31 March 2021 (2020-21);
- 2. Activity under the innovation funding streams in 2020-21;
- The level of delivery against baseline outputs in response to changing needs which automatically adjust the cost allowances (known as 'volume driver' mechanisms);
- 4. The TO's costs incurred against the total allowance across the RIIO-ET1 period and the current Rate of Regulatory Return on Equity (RoRE) range.



To ensure value for money for energy consumers, Ofgem regulate TOs through periodic price controls. The three TOs and the areas they operate are shown on the map.

The price controls we set determine, among other things, the amount of revenue that TOs are able to earn from network users (through the charges consumers pay). They also stipulate the level of performance we expect TOs to deliver.

To set our price controls we use the RIIO (Revenue = Incentives + Innovation + Outputs) framework. The price control period covered by this report, was set for a period of 8 years from 1 April 2013 to 31 March 2021. All financial values in this report are stated in the 2020-21 price base.

¹ The Regulatory Instructions and Guidance (RIGs) requires Transmission Owners to provide information to the Authority. The Authority used the information provided in the RIGs in preparation of this Annual Report. More details can be also found in paragraph 1.18 of <u>https://www.ofgem.gov.uk/publications/direction-modify-regulatory-instructions-and-guidance-rigs-riio-et1-version-82</u>

² RIIO stands for "Revenue = Incentives + Innovation + Outputs"

³ More details can be found in the accompanying datafile.

This report highlights the key performance results for the electricity transmission sector in the annual period between 1 April 2020 and 31 March 2021 when the impact of the COVID-19 pandemic was present. We⁴ acknowledge the collaborative arrangements that were put in place from March 2020 across all the energy networks to tackle the effects of the pandemic. These arrangements helped to maintain security of supply and high levels of system reliability, deliver essential services to consumers, while also ensuring safety for all.

1. Outputs and Incentives

- 1.1 As part of RIIO-ET1, we set a range of outputs in the licence which TOs have committed to deliver. Annual output targets apply in three areas⁵:
 - (1) reliability of service;
 - (2) stakeholder and customer satisfaction; and
 - (3) environmental impact.
- 1.2 As set out in the RIIO-ET1 electricity transmission licence, if TOs met their annual output targets they received incentive payments, and where TOs failed to achieve their annual output targets they incurred financial penalties.
- 1.3 A further three outputs were also applied under RIIO-ET1. They were:
 - (4) adherence to legislative requirements (safety);
 - (5) implementing and maintaining a network access policy (availability); and

(6) responding to connection requests in accordance with licence timescales (timely connections).

1.4 These additional three outputs did not have annual performance targets. TOs were at risk of enforcement action and/or financial penalty when they failed to meet existing licence requirements.

⁴ The terms 'we', 'us', 'our' refer to the Gas and Electricity Markets Authority. Ofgem is the office of the Authority. ⁵ More details can be found in Special Conditions (National Grid Electricity Transmission plc - Special Conditions Consolidated - Current Version.pdf (ofgem.gov.uk) and in the accompanying datafile.

- 1.5 The TO's performance for each output area is summarised below.
- 1.6 Further summary information can be found in the data file accompanying this report.

Reliability

- 1.7 All TOs have reported strong levels of network reliability in 2020-21 and outperformance against their annual targets to minimise how much electricity is lost to the distribution networks and other customers (Energy Not Supplied or ENS) because of failures to the assets on the transmission network (see Figure 1 for more details). The strong outperformance represents an overall level of network reliability across all three TOs of 99.997%.
- 1.8 In terms of the annual values of megawatt hours (MWh) lost on the transmission system:
 - Scottish Power Transmission (SPT) reported 48MWh in 2020-21, an increase on last year's volume (2MWh) and still far below the RIIO-ET1 benchmark (225MWh). SPT explained the increase in annual volumes between 2019-20 and 2020-21 is the result of a single incident on a double circuit route in Edinburgh (where one circuit was out of service for planned works and the other faulted) and no significant weather-related incidents in the past reporting year.
 - Scottish Hydro Electric Transmission (SHET) reported a value of 0MWh for annual MWh lost in 2020-21. This volume is below the average level for the entire RIIO-ET1 period across all TO's (25 MWh).
 - National Grid Electricity Transmission (NGET) reported an annual volume of 0MWh in 2020-21 and an average volume level for the entire RIIO-ET1 period of 33MWh. NGET have consistently exceeded reliability targets over the RIIO-ET1 period.



Figure 1: Annual MWh lost to incentivised events

Note: SHET reported a value of 0MWh for annual MWh lost in 2015-16 and zero in 2018-19 and 2020-21. NGET report a value of 0MWh for annual MWh lost in 2020-21.

Stakeholder and customer satisfaction

- 1.9 This is assessed against the quality of network companies' engagement with stakeholders and customers. Performance in 2020-21 has been positive overall with improvements across the majority of engagement areas in comparison with 2019-20.
- 1.10 In 2020-21, SPT received an improved rating from the Ofgem-led panel assessment, achieving together with SHET and NGET, a score above the annual performance target. SPT recorded a strong score in the stakeholder survey, significantly better than the annual benchmark. SPT's Key Performance Indicator (KPI) score slightly decreased from the previous year but is still significantly higher than the baseline of 69⁶. SHET reported a lower score in stakeholder survey (8.4 to 8.2) and improvement in KPI scores relative to last year; exceeding the annual survey benchmark and the annual performance target in the KPI area (90%). Compared to previous year, NGET received a lower rating from the Ofgem-led panel assessment this year, but still achieving a score above the annual performance target, and increased scores in both survey metrics from 2019-20 to exceed annual performance targets.

⁶ Key Performance Indicators target is defined in Special Conditions under paragraph 3D.11.

	16/17	17/18	18/19	19/20	20/21	Baseline
Stakeholder Survey Scores				-		
SPT	7.9	8.3	8.5	8.4	8.6	7 4/10
SHET	8.7	8.0	8.2	8.4	8.2	, , , 10
NGET	7.7	7.9	7.9	8.6	8.9	
KPI Scores						
SPT	77.0	78.0	70.7	77.0	76.7	
SHET	69	76	87	87	90	
Ofgem Panel						
SPT	6.3	6.4	4.9	5.9	6.4	
SHET	5.4	3.3	4.1	6.6	6.3	5/10
NGET	7.0	5.1	5.5	5.9	5.5	
Customer Survey Scores (NGET only)						
NGET	7.41	7.74	7.92	8.21	8.39	6.9/10

Table 1: TO engagement summary (2016-2021)

Environment

- 1.11 SPT and NGET report met their sulphur hexafluoride (SF6) emissions targets for 2020-21, this led to a 3% decrease of the overall level of leakage relative to the total emission rate reported in 2019-20 (12,951kg against 13,404kg).
 - SPT reported a strong increase in leakage rate relative to last year (775kg against 530kg) but the leakage was still reported to be 15% below the annual limit (40% last year) see Figure 2 below. SPT explained that the performance was mainly influenced by the removal and decommissioning of equipment at a large 275kV substation.
 - SHET fell short of the annual target for the fifth time in RIIO-ET1 by 85kg (22%) for 2020-21 (43kg increase against the 2019-20 annual leakage level). This will result in a financial penalty7. SHET explained that the rate is above the preagreed annual limit due to the significant increase in the SF6 asset base see Figure 2 below.

⁷ The value of the Sulphur Hexafluoride Incentive is yet to be derived as the formula to calculate the incentive reflects the performance of the licensee in relation to actual sulphur hexafluoride (SF6) emissions compared to a baseline target of SF6 emissions for Relevant Year t-2 (Special Conditions 3E).

 NGET reported a decrease in annual leakage levels (11700kg against 12441kg) and remain below its 2020-21 annual target – see Figure 3 below.



Figure 2: SPT and SHET SF6 annual leakage rates relative to the annual target

Note: SHET's annual leakage level relative to target in 2016-17 and 2018-19 is 0.08kg and 5kg, respectively.



Figure 3: NGET TO SF6 annual leakage rates relative to the annual target

Note: NGET's annual leakage level relative to target in 2020-21 is 696kg below the annual target.

Safety

1.12 All TOs met all safety legislation requirements⁸. In 2020-21 there was continuation of very low rates under Incident or Injury Frequency metrics for all TOs.

Availability

1.13 All TOs have complied with the Network Access Policy (NAP) requirements for 2020 21. In March 2019, Ofgem approved a new NAP to reflect the legal separation of the TO and System Operator functions of National Grid.⁹ SHET and SPT have a separate common NAP covering Scotland.¹⁰

Timely connections

1.14 This year the TOs made all connections offers to customers within the licence timescales¹¹.

Network Output Measures (NOMs)

1.15 Network Output Measures (NOMs) are output used to monitor and assess the TOs asset management activities in RIIO-1. TOs were funded to deliver individual NOMs targets, with the potential for funding adjustments and rewards or penalties in the event of over-delivery or under-delivery against the targets. Closeout of the NOMs Incentive Mechanism is separate to the wider RIIO-ET1 Closeout. Our RIIO-1 NOMs Draft Determinations (NOMs DDs) were published for consultation on 20th May 2022¹². The consultation closed on 15th July 2022 and we are currently considering stakeholders' views.

⁸ Statutory safety obligations set by the Health and Safety Executive (HSE).

⁹ <u>https://www.ofgem.gov.uk/publications-and-updates/decision-proposed-amendments-national-grid-electricity-transmission-s-network-access-policy</u>

¹⁰ <u>https://www.ofgem.gov.uk/publications-and-updates/authority-decision-approve-network-access-policy-nap</u>

¹¹ Standard condition C8: Requirement to offer terms. All new or modified offers must be provided to customers within the 90 days. More detailed information on the principal rights and obligations in relation to connection to and/or use of the transmission system can be found in the CUSC document available on the Electricity System Operator (ESO) website: <u>Connections Offer Process | National Grid ESO</u>

¹² <u>https://www.ofgem.gov.uk/sites/default/files/2022-05/RIIO-1%20NOMs%20Draft%20Determinations_0.pdf</u>

Machaniam	Cumulative reward or penalty					
(£m 2020-21 prices)	NGET	SHE Transmission	SPEN SPT	Total		
Energy Not Supplied (Network Reliability Incentive)	24.63	8.64	18.04	51.30		
Stakeholder Satisfaction Output	75.17	8.89	12.59	96.65		
Sulphur Hexafluoride, SF ₆	10.40	-0.44	0.72	10.68		
Environmental Discretionary Reward	3.94	7.73	9.75	21.42		
Timely connections (Performance re offers of timely connection)	Х	Х	-0.12	-0.12		
Total all mechanisms (£m)	114.14	24.82	40.97	179.93		

Table 2: Output incentive mechanisms – indicative cumulative revenue rewards andpenalties for 2013-21

2. Innovation

- 2.1. As part of RIIO, Ofgem introduced two new funding mechanisms for network innovation: the Network Innovation Allowance (NIA) and the Network Innovation Competition (NIC). The purpose of NIA funding is to encourage TOs to identify, develop and test new ways of delivering electricity transmission. The NIC is an annual opportunity for electricity network companies to compete for funding for the development and demonstration of new technologies, operating and commercial arrangements.
- 2.2. This year all TOs have registered additional projects for funding under the NIA funding streams¹³. In 2020-21 NGET spent £6.5m across 56 eligible NIA projects. SPT spent £1.5m against its portfolio of 22 NIA projects and SHET spent £0.7m progressing 11 NIA projects.

¹³ Network Innovation Allowance (RIIO-1) | Ofgem

- **2.3.** Using funding from the NIC:
 - NGET is converting an existing 400kV substation into a high voltage innovation centre. NGET also started the Retrofit Insulated Cross Arms (RICA) NIC project aiming to develop a novel method of uprating Overhead Lines (OHLs), accelerating the low carbon energy transition by allowing quicker removal of network constraints, resulting in earlier connection of renewable generation.
 - SPT is developing digital substation applications (Future Intelligent Transmission Network Substation Solutions) and, in collaboration with the Electricity System Operator, is deploying hybrid synchronous compensators (Project Phoenix), and
 - SHET has three projects under the NIC of which the Modular Approach to Substation Construction (MASC) project has been terminated. SHET is progressing development of a Multi-Terminal Test Environment (MTTE) for High Voltage Direct Current schemes and a New Electricity Suite of Transmission Structures (NeSTS).
- 2.4. Information on funding decisions under the NIC can be found on our website.¹⁴

3. Volume driver mechanisms

3.1. Volume driver mechanisms link adjustments of a network company's baseline cost allowance to its actual volume of network services provided over RIIO-ET1¹⁵. The mechanisms recognise the uncertainty associated with changes driven by factors that are beyond the control of TOs.

¹⁴ <u>https://www.ofgem.gov.uk/network-regulation-riio-model/current-network-price-controls-riio-1/network-innovation/electricity-network-innovation-competition</u>
¹⁵ For NGET volume driver mechanisms, please see chapter 4 in the RIIO-T1 final proposals (cost assessment and

The RIO-TI final proposals (cost assessment and uncertainty supporting document): <u>Microsoft Word - RIIOT1 Final Proposals.docx (ofgem.gov.uk)</u>. For SPT and SHET volume driver mechanisms , please see tables 4 and 8 in their Final Proposals document: <u>Microsoft Word - RIIOT1 Final Proposals.docx (ofgem.gov.uk)</u>

- 3.2. For NGET, the required output across all three customer-led mechanisms (new generation connections, new demand connections and works to strengthen network boundaries) are significantly lower than its baseline level.
- 3.3. By the end of financial year 2021, NGET's cumulative delivery over RIIO-ET1 was:
 - 12 gigawatt (GW) of new generation capacity against a baseline of 33.7 GW¹⁶.
 - 36 Supergrid Transformers compared to a baseline delivery target of 72 units.
 - 12GW of additional boundary transfer capability against a baseline of 23 GW.
- 3.4. In Scotland there are two customer-led volume driver mechanisms which apply to SHET and SPT. Both mechanisms apply only to new generation connections. The first is for providing network capacity to connect multiple generators ('shared use') and is measured by the increase in transfer capability in megavolt amperes (MVA). The second is the connection of single generators ('sole use') which is measured by the amount of new infrastructure capacity associated with the generation connection, measured in megawatts (MW).
- 3.5. SPT connected 1,948MW of new sole use generation capacity over RIIO-ET1, the portfolio now includes the connection of Neart Na Goithe (450MW) offshore windfarm in RIIO-T1, which is under construction. The current portfolio is 78% of the 'sole use' baseline output level of 2,503MW (slightly down from 1,950MW forecast reported last year) a clawback of allowance is factored into the outturn in accordance with SP Transmission special licence condition 6F. SPT explained that the outturn was very sensitive to the connection of an offshore windfarm to its system, with the sole-use infrastructure capacity successfully commissioned in 2021.
- 3.6. In the case of 'shared use', SPT delivered a significant increase in additional network capacity over and above its 1,073MVA baseline level, which resulted in an overall increase in network capacity of 3,471 MVA by the end of RIIO-ET1 (a decrease from 3,561 MVA forecast reported last year).
- 3.7. SHET reported that it delivered above baseline levels for RIIO-ET1 and exceeded the baseline output target for T1 for both sole use (1,168MW) and shared use (1,006MVA) infrastructure at the end of 2020-21. The eight-year values are 230MW (c.20%) above

¹⁶ This baseline value includes delivery of connected capacity in RIIO T1+2 timescales.

the baseline threshold of 'sole use' capacity (unchanged from last year forecast). Infrastructure 'shared use' capacity of 1270MVA (c.126%) was delivered, which is above the 1,006MVA baseline (down from a forecast excess capacity of 1,500MVA reported last year).

3.8. SHET explained that the reductions in the level of infrastructure output delivery across the T1 period relative to last year's forecast is due to delayed energisation of the Beauly Keith project (230 MVA) which is now a T1/T2 crossover project.

4. Eight years Totex performance drivers

4.1. All TOs currently report a Total Expenditure (totex) underspend against cost allowances adjusted by volume drivers across RIIO-ET1 (ranging from 7% to 25%). The combined value of total expenditure for the TOs across RIIO-ET1 is close to £15.5 billion (a reduction of more than £400m relative to last year's forecast)¹⁷ and a cumulative underspend of 20% against allowance as highlighted in Table 3 below (against an anticipated outperformance of 17% reported in 2019-20).

£m, 2020-21 prices	RIIO-ET1 company data				
	(pre-true up p	position in respe	ct of exclude	d services,	
	SpC3L, and other NGET adjustments ¹⁸)				
	Allowance Expenditure Difference			rence	
	£m	£m	£m	%	
NGET					
(includes impact of the MPR decision ¹⁹ and the agreed 'voluntary deferral' ²⁰ of allowances)	13,217	9,914	-3,303	-25%	
SPT (includes SPT's estimate of the end-of-period clawback related to the sole-use mechanism)	2,435	2,272	-162	-7%	
SHET (includes impact of the agreed 'hand back' ²¹)	3,669	3,361	-307	-8%	
Total	19,320	15,548	-3,772	-20%	

Table 3: TO view of totex expenditure vs adjusted allowed totex (£m)

¹⁹ Mid-period review decision | Ofgem

¹⁷ This represents the cumulative forecast totex value for the RIIO-T1 period reported in the respective reporting packs and available from each TOs website. Further adjustments subsequently made by each TO are detailed in the text below and listed in the data file published alongside this report.

¹⁸ NGET reports making a further adjustment to reflect liquidated damages receipts relating to the delayed Western HVDC link (\pounds 88m in 20-21 prices), an adjustment for forecast excluded services true-up (\pounds 291m in 20/21 prices) and \pounds 82m for a clawback of RIIO-T1 allowances relating to projects spanning the T1/T2 price control period. Including the impact of these adjustments reduces the outperformance to \pounds 2,842bn.

²⁰ RIIO-ET1 Financial Model following NGET Deferral | Ofgem

²¹ For the purposes of this analysis we have assumed that the profile is spread over the last two years of RIIO-ET1.

- 4.2. The accompanying datafile separately illustrates the impact of any previously agreed allowance adjustments as well as the current TO data of the end-of-period 'true ups' for excluded services and pre-construction outputs (PE Outputs) under special condition 3L of the RIIO-ET1 licence.
 - SPT's reported underspend (£162m or 7%) is driven by savings in both loadrelated and non-load related spend outweighing the overspend in the other cost categories. This is an increase in the T1 forecast underspend position reported last year (£144.7m).
 - SHET's current pre true-up underspend (£307m or 8%) is driven by savings in load spend which outweighs the overspend in non-load related expenditure. This is an increase against the anticipated outperformance across the RIIO-ET1 period reported in the previous year (£276m²²).
 - NGET TO's underspend (3.3bn or 25%) is driven by savings across load and nonload spend across RIIO-ET1. The underspend has increased in absolute amount against the forecast position reported last year (£2.87bn or 22%) and accordingly increased in proportion of the adjusted allowances against the forecast position reported last year (22%).
- 4.3. The overall position of the TO's current costs incurred against the total allowance acrossRIIO-ET1 is illustrated in Figure 4 below.



Figure 4: Actual expenditure vs allowance: All TOs

²² See previous data file for more detail.

- 4.4. Network companies are incentivised to outperform their RIIO-ET1 totex allowance using the totex incentive mechanism (TIM). The TIM means that any underspend of the totex allowance is shared between the TO and its customers. The efficiency sharing rate is symmetrical for any overspends: the TO is exposed to any shortfall and the remainder is passed onto customers by increasing allowances to be recovered through network charges.
- 4.5. The overall position of the TOs costs incurred against adjusted cost allowances to date for RIIO ET1 (1 April 2014 to 31 March 2021) is an underspend of £3.77bn or 20% (an increase in the overall value reported in 2019-20, £3.66bn). Through the action of the totex sharing factor, customers will receive £2bn of the overall underspend, which will reduce customer charges; the TOs will retain the remaining £1.8bn.

Load related performance (Capital Expenditure (capex)

- 4.6. The overall spend across RIIO-ET1 for this category is significantly under allowance (£1.79bn) and has increased since 2019-20 (when it was forecast at £1.59bn or 18%).
- 4.7. The main drivers behind the current forecast position include: TOs finding ways to strengthen their networks at a lower cost than previously estimated; efficiencies in delivery; reductions in the scope of works and construction periods through 'lean' engineering design, and optimisation of the investment plan to reflect projects being delayed or deferred.
 - SPT's underspend is £150m (or 11.2%), which means SPT's performance across RIIO-ET1 under this cost category has decreased relative to last year's forecast (£161m or 11.5%).
 - SHET's current underspend of £493m, or 16% (excluding the impact of the 'hand back' and true-up)23 is primarily driven by savings due to innovation in the solutions to achieve the output delivery, efficiency in project management and effective risk management.

 $^{^{23}}$ The impact of the inclusion of the hand back reduces outperformance to £429m, which is further reduced to £275m (9%) when including then estimated impact of the true-up of excluded services and special condition 3L.

 NGET reported an underspend of £1.1bn or 25%. The difference between expenditure and allowance has increased compared to last year's T1 forecast (£1bn or 23%). The major influence in this movement and in the category more generally category is changes in both volume and timing of customers connecting to the system, and the associated wider works to deliver optimised solutions.

Non-load related performance (capex)

- 4.8. The TOs reported different levels of performance across RIIO-ET1 under this category.
- 4.9. NGET's and SPT's expenditure on non-load activities is lower across the price control period than their allowance in 2020-21. For SHET, the opposite is true: it is currently spending above current allowance across RIIO-ET1.
- 4.10. In the case of NGET, the difference between current expenditure and allowance is £2.5bn or 40%)²⁴, an increase of almost £300m compared to last year's T1 forecast (£2.2bn or 35%). The performance position for both SPT (underspend) and SHET (overspend) is comparable to the forecast positions reported last year.
- 4.11. The cumulative spend by TOs are under the RIIO-ET1 allowance (almost £2.5bn). This is a small increase on the previous forecast position (£2.18bn) and is primarily the result of the reduction in expenditure anticipated by NGET.
 - SPT's current outperformance (£101m or 12%) is more than last year's forecast position (£79m).
 - SHET's overspend (£106m or 35%) is less than forecast last year (£117m). The current overspend is primarily driven by a reduction in Uncertain costs. However, this is offset by increased expenditure attributable to overhead line schemes due mainly to additional scope requirements.

²⁴ NGET reported this difference between adjusted allowances spend as £2.2bn for their view of non-load related performance.

- NGET's reported underspend (£2.5bn or 40%) is primarily driven by cost savings across the non-load portfolio across RIIO-ET1, which has decreased spend relative to last year's position (a reduction of more than £300m) with minimal movement reported in the level of current allowance. The expenditure reduction is associated with:
 - asset management based activities including the planning and prioritisation of the highest risk assets;
 - procurement of equipment; and
 - new approaches to asset replacement.
- 4.12. Based on the information submitted by NGET we understand that the overall difference between forecast cost and allowance anticipated by NGET is the result of a revised understanding of asset condition (e.g. transformers not deteriorating as fast as initially predicted), the extension of asset lives (e.g. reduces need for intervention and cost), a more targeted asset replacement approach (e.g. reduced delivery scope and time for switchgear replacement) and new intervention techniques to deliver efficiencies.

Non-operational cost performance (capex)

4.13. The overall position on non-operational capital expenditure is largely unchanged from last year. All TOs reported a significant overspend against allowance (£233m). The position has increased relative to the 2019-20 forecast (£221m) and reflects increased IT expenditure and cyber security improvements. The breakdown of company figures can be found in the datafile.

Controllable operating cost performance (opex)

- 4.14. Overall, TOs overspent allowances in this cost category by £216m over RIIO-ET1. This is less than the 2019-20 forecast (£246m or 9%). Similar to last year, this year position is attributable to overspends by NGET and SPT (whose respective overspends are £139.7m and £82m). SHET spend are broadly in line with the allowance for RIIO-ET1 (reported a £5m underspend).
- 4.15. Reasons for the overspend applicable to NGET include increases in ongoing IT program costs aimed at improving efficient decision-making and data reporting, and higher costs incurred in the restructuring programme which will lead to a lower head count and leaner structure.

4.16. SHET stated they have experienced significant growth in the Network during the early part of T1 and quite a substantial cost was being capitalised against projects. SPT explained that the main driver for the overspend is an increase in Business Support Costs.

Consumer bill impact

- 4.17. Our Tariff methodology provides an estimate of the overall cost of domestic energy bills. This includes an estimate of the proportion of the overall cost of energy which is attributable electricity transmission costs. The methodology uses an average electricity demand applied uniformly across all regions and over time.
- 4.18. Our latest bill assessment using this methodology estimates that the average GB consumer in 2012-21 will pay £36.5 per annum in real 2020-21 price terms for electricity transmission costs. Charges differ considerably depending on the region in which a domestic consumer resides, ranging from £17.32 in North Scotland to £46.57 in South East England.

5. Rate of Regulatory Return on Equity (RoRE)

5.1. RoRE is made up of several components. The allowed equity return is the return on equity that a company would earn if their expenditure and allowance matched and there were no other incentives. Operational performance (totex) compares the totex allowance to a company's actual totex expenditure and any underspend or overspend is then shared between the company and consumer through the Totex Incentive Mechanism. Operational performance (other)²⁵ accounts for a company's overall incentive performance. Putting these three component parts together produces operational RoRE. Financing and tax performance is added to produce total RoRE.

²⁵ 'Operational performance (other)' consists of: 1. Output incentives – A financial reward or penalty based on the licensees' performance against defined incentives. 2. Innovation – This represents the amount licensees cannot recover through revenue or contributions they make in relation to funded innovation projects. 3. Penalties or fines – An adjustment is made to licensees return for any Ofgem related penalties and fines, and guaranteed standard payments made to customers. These costs are borne by the shareholders.

5.2. We have calculated the total RoRE (with financing and tax) based on notional gearing to be between 9.4% and 11.3% across the different TOs. This is based on the value of TOs' latest forecast performance at the end of the eight-year period. A summary of our assessment of the TOs' RoRE performance is shown in the Figure 5 (comparing this year to the previous three years) and Table 4 below.



Figure 5: RoRE based on Notional Gearing – RIIO-ET1 period

 Table 4: RoRE based on Notional Gearing – RIIO-ET1 period 2020-21²⁶

	NGET TO 2020-21	SPT TO 2020-21	SHET TO 2020-21
RIIO-ET1 operational RoRE	9.5%	9.4%	8.9%
Financing and tax performance	10.6%	11.3%	9.4%
Total RoRE	10.6%	11.3%	9.4%

If you require additional performance data, please refer to the supplementary datafile which is published along with this report.

²⁶ The RoRE calculation includes adjustments to allowances that reflect the company expectation of the 'true-up' process at the end of the RIIO-ET1 period. The values for SHET do not include the Beauly Denny TIRG project or the impact of non-mechanistic close out adjustments.