



*Promoting choice and value for
all gas and electricity customers*

To generators, shippers,
suppliers, network companies,
consumers and their
representatives, the sustainable
development community,
investors and other interested
parties.

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Dear colleague

RIIO-T1: Transmission companies' business plans - publication and next steps

The next transmission price control (RIIO-T1) is the first price control to be conducted under our new RIIO model (Revenue = Incentives + Innovation + Outputs). The objective of RIIO is to encourage network companies to play a full role in the delivery of a sustainable energy sector, and to do so in a way that delivers value for money for existing and future consumers. The price control process under RIIO is different to previous controls.

A core component of the new process is the requirement on network companies to take into account the needs and views of their stakeholders in order to develop well-justified business plans. Each network company is required to develop and publish a detailed plan which demonstrates how they will deliver in the interests of both existing and future consumers and how they will meet the challenges associated with facilitating the move to a low carbon economy.

In March 2011 we published our decision¹ on the key elements of the regulatory framework for RIIO-T1. Our decision confirmed 31 July 2011 as the deadline for submitting the business plans. It also provided business plan guidance and the tools we would use for assessing network companies' plans. Under RIIO we are taking a proportionate approach to our scrutiny of companies' plans, i.e. that the level of our regulatory scrutiny will vary according to the quality of their plans. Companies that submit very high quality plans will also be offered the option of agreeing price controls early – fast-tracking. Proportionate treatment and fast-tracking provide strong incentives for companies to submit well-justified plans.

The four transmission companies have now submitted and published their RIIO-T1 business plans. These are available at the following links:

- National Grid Gas plc (NGG), which owns the high pressure gas transportation system across Britain - <http://www.talkingnetworkstx.com/>
- National Grid Electricity Transmission plc (NGET), which owns the high voltage electricity network in England and Wales - <http://www.talkingnetworkstx.com/>

¹ Decision on strategy for the next transmission price control – RIIO-T1
<http://www.ofgem.gov.uk/Networks/Trans/PriceControls/RIIO-T1/ConRes/Documents1/T1decision.pdf>

- SP Transmission Limited (SPTL), which owns the high voltage electricity network in the south of Scotland - http://www.spenergynetworks.com/publicinformation/stakeholder_home.asp
- Scottish Hydro Electric Transmission Limited (SHETL), which owns the high voltage electricity network in the north of Scotland. - <http://www.ssepd.co.uk/Projects/TransmissionPriceControlReview/>

Effective stakeholder engagement is an important element of RIIO; and we are keen to provide stakeholders with greater opportunities to inform Ofgem and network company decision making. To improve transparency and assist our analysis, we are encouraging stakeholders to review these business plans and provide us with feedback.

Specific areas where we seek views

While we welcome views on any aspect of the companies' plans, there are a number of specific points on which we would particularly welcome feedback. These are set out below.

Overall quality of the plans

This is first time that the transmission companies have been required to make public well-justified business plans.

- Do you consider that the plans are comprehensive and well-justified? Do they provide a clear understanding of what the company will deliver over the price control period?
- Do the plans include all relevant information necessary for you to understand the impact of those plans on your interests?

Reflecting what customers value/ stakeholder engagement

Under RIIO stakeholders have a greater opportunity to inform our, and network companies' decisions during the price control review process.

- Have the views you provided to the network companies been reflected in their plans?
- Do you consider that the plans reflect the interests of both existing and future consumers?

Investment plans

There is significant investment required in the transmission networks over the next price control period and beyond.

- Do you consider that the companies have clearly identified and justified revenue allowances in their business plans to cover their network investment requirements?

Financial proposals

We put forward proposals in our RIIO Strategy Decision to ensure efficient companies would be able to raise timely finance and to ensure they would be remunerated appropriately.

- Do you have any views on the package of finance measures proposed by the companies?

Focus on sustainability

RIIO is designed to provide network companies with strong incentives to step up and meet the challenges of delivering a low carbon, sustainable energy sector.

- Do you consider that the companies' plans set out an appropriate strategy that they will employ to play a full role in delivering a sustainable energy sector?

Uncertainty and risk

Companies are required to demonstrate that their proposals take account of the various risks and uncertainties they face and in light of these provide a strategy to deal with them efficiently.

- Do you consider that the plans present a comprehensive consideration of the sources of uncertainty they face, their potential impact on output delivery and a clear strategy for seeking to address uncertainty in the long term?

Views welcome and next steps

We will publish our initial assessment of the business plans in October 2011.

We welcome views on these issues or any other aspects of the business plans to inform our initial assessment. We will consider views as part of our wider assessment of the companies' plans. Please submit any written comments to RIIO-T1@ofgem.gov.uk, by **Friday 9 September 2011**. Unless clearly marked as confidential, responses will be published on our web forum.

We will of course review stakeholder comments after this date but we will not be able to guarantee to incorporate them in the October initial assessment.

Please contact grant.mceachran@ofgem.gov.uk if you would like to discuss any of the issues in this letter.

Yours sincerely



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