



**SP ENERGY
NETWORKS**

Delivering for customers to 2023 and beyond Our ED1 Plan

http://www.spenergynetworks.co.uk/serving_our_customers/business_plan.asp?NavID=1&SubNavID=8

PCRF 30th July 2013

Jim McOmish
Head of RII/OED1 Programme

Agenda



The Process of Creating our Plan

Plan summary

Core expenditure

Delivering efficiently

Efficiently financing our plans

Customer bill impact

Shaping the plan based on stakeholder input



Stakeholder priorities referenced throughout, Process in Chapter 6, detail in Annex 1



How did we tailor our approach?

- 3 distinct phases
- Video to communicate the key messages
- Key events with all stakeholders groups
- Plug stakeholder gaps with tailored phone & online tools requiring less time commitment
- Domestic workshops and doorstep surveys
- Publish easy to read highlights document early
- Welsh language material

Changes as a result of feedback

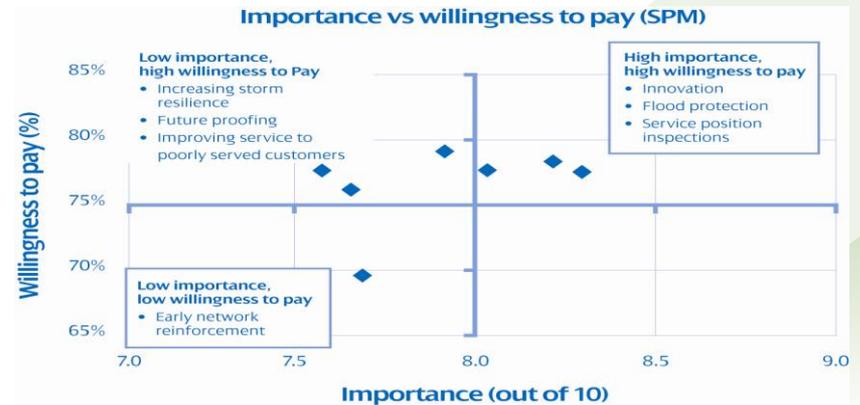
- 0.8% Network Innovation Allowance
- 10% more on storm resilience
- 14% more on poorly served in SPD

Balanced conflicting feedback

- General reinforcement trigger

SPM	Phase 1		Phase 2			Phase 3	
	Stakeholder priority areas	What we proposed in draft plan (Feb 2013)	Stakeholders workshops (voting)	Stakeholder on-line survey (sumatto)	Employee on-line survey (sumatto)	Customer face to face survey (sumatto)	What's in our final plan?
Storm resilience	Improving resilience to >10% customers	Improving resilience to >10% customers	↑	↑	↑	↔	↑ Draft plan + additional 10% of km in severe weather areas will be made resilient.
Poorly served customers	Improving service to 40% of poorly served customers	Improving service to 40% of poorly served customers	↔	↑	↑	↔	↔ Consistent with draft plan – investment targeted to poorly performing overhead lines and cables
Energy advice for fuel poor	No expenditure in draft plan	No expenditure in draft plan	↔	Proposed alternative output related to fuel poverty			
Network capacity information for new connections	No expenditure in draft plan	No expenditure in draft plan	↔	Exploring options for this to be funded by connections customers			
Future proofing the network	No expenditure in draft plan*	No expenditure in draft plan*	↑	↑	↔	↔	↑ Investment in future proofing, in line with £10m option presented at stakeholder events
Earlier approach to network investment	6 new grid circuits or transformers, 30 new or upgraded sites	6 new grid circuits or transformers, 30 new or upgraded sites	↔	↔	↓	↓	↔ Consistent with draft plan – triggering reinforcement 20% earlier
Future innovation spend	No expenditure in draft plan**	No expenditure in draft plan**	↑	↑	↑	↑	↑ 80p per customer per annum, based directly upon stakeholder feedback
Service position inspections	Inspection every 5 years starting 2015	Inspection every 5 years starting 2015	↔	↓	↔	↔	↓ Inspections to start 5 yrs after smart-meter installation – later than draft plan assumption. Reduced investment in ED1.
Flood protection	Protect 120,000 customers against 1 in 100-year event.	Protect 120,000 customers against 1 in 100-year event.	↔	↑	↔	↑	↑ Accelerating our flood protection programme prior to ED1. Reduced ED1 investment.

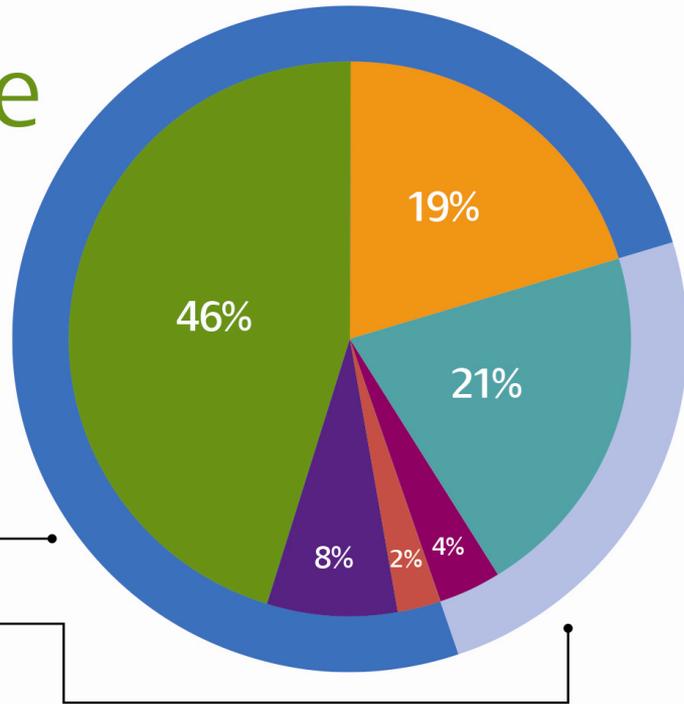
* As stakeholders demonstrated strong support for Future proofing at our workshops, we presented an option for £10m investment in our surveys.
 ** As stakeholders demonstrated strong support for Innovation at our workshops, we presented an option for investment of 50p per customer per annum in our surveys.



97% of stakeholders felt we were listening to their views in preparing our plan

Efficient expenditure

Includes 1.0% p.a. efficiency



Total £5.2bn

75% — £3.9bn

Traditional core business

25% — £1.3bn

New and external costs

21% — £1.1bn other non-core costs (corporation tax, rates, etc)

4% — £0.2bn facilitating uptake of low carbon technologies

46% — £2.4bn relates directly to managing our ageing network

8% — £0.4bn to accommodate customer future requirements

19% — £1.0bn engineering and corporate support activities

2% — £0.1bn Real Price Effects

	Licence area	ED1 8y spend	Change from DR5
Network investment	SPD	£850m	+2.4%
	SPM	£1,338m	+21.6%
Controllable operating costs	SPD	£890m	-4.1%
	SPM	£887m	-10.6%

Our Core Plans

Stakeholder views Ch 6 detail Annex 1, Outputs Chapter 8, Expenditure Chapter 9, Secondary Deliverables, Storm Evidence and Reports, Manweb network Annex 2



Plans built around stakeholder priorities & informed by asset condition

Managing ageing network

Reduce number and length of power cuts

Reduce number and length of power cuts in storms

Prepare the network for low carbon technologies

Improve customer service

Renewing ageing network over several decades to reduce impact on customer bills (innovation reduces cost and manages risk)

Continue industry leading low ground clearance programme & replacement of cables in buildings

Use QoS Incentive to reduce CI by 7%, CML by 16% and average time off supply by 25%

Make 25% of our rural HV network and a further 25% of our LV network resilient by 2023

Industry average load triggers to prepare for future customer needs

DR5 innovation deployed as BAU

Low carbon costs reduced by innovation and Manweb network

Wide ranging package of outputs demonstrate our commitment



Load Index	SPEN DPCR5	RIIO-ED1
1	0-90%	0-80%
2	90-99.9%	80-95%
3	100-120%	95-99%
4	100-120% 48-720hrs	100% <9hrs
5	100-120% >720hrs or >120%	100% >9hrs

Delivering Efficiently

Expenditure Chapter 9, Business Readiness Ch 10, Annex 3

Plans have been built: Targeting upper quartile costs
Recognising improvements made and planned by other DNOs
With a further 1% per annum productivity improvement

Cost Benefit Analysis

In key areas (e.g. loss reduction initiatives – transformers and larger OHL conductors)

Embedded innovation

Hard coded in plans reducing costs by > £100M

Unit cost benchmarking

Targeting upper quartile or better costs and improvements other's have achieved

Indirect cost assessment

Leveraging benefits of being part of global networks business

Productivity

1% p.a. compounding

Outputs increased from draft plan

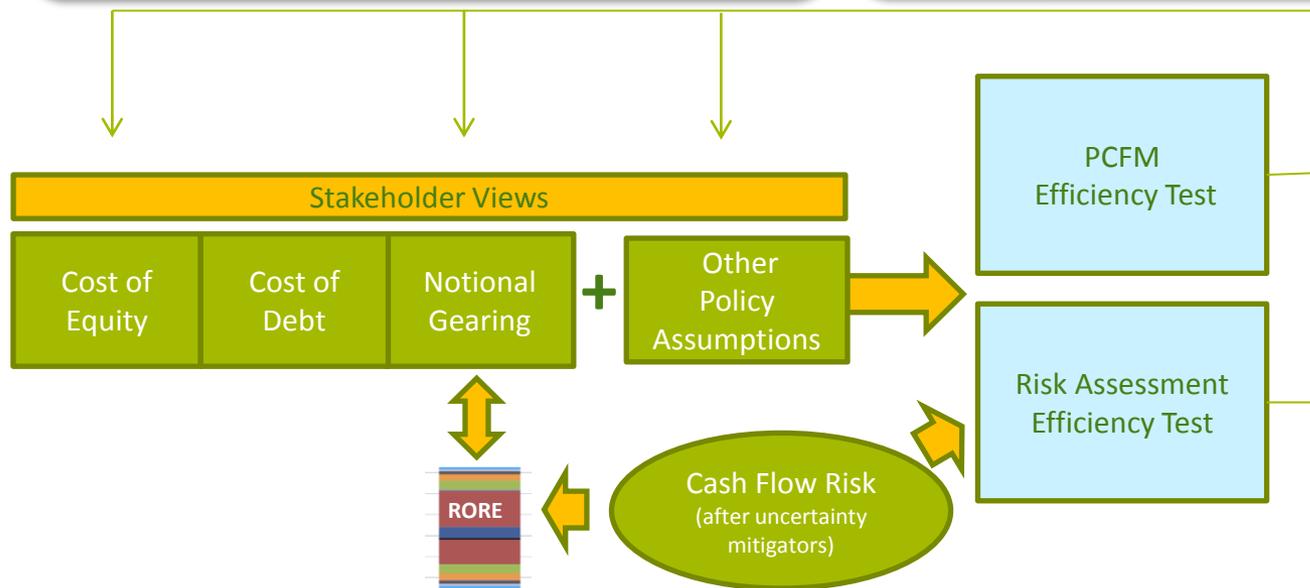
>£700M reduction from draft plan

Efficiently Financing Our Plan

Chapter 12, Annex 3 and published PCFM

Structured Approach

Strict adherence to RIIO principles



Parameter	Electricity Distribution DPCRS 2009	SPEN July 2013
Cost of Debt	3.6%	Indexed
Cost of Equity	6.7%	6.7%
Notional Gearing	65%	65%
Dividend Yield	5%	5%
Capitalisation	85%	80%
Asset Lives	20 years	45 years for new investments
Financeability	Investment Grade	Investment grade

Non-Investor stakeholders?

Annex 3.1 Section 2.1

Test gearing using RORE?

Annex 3.1. section 2.4

Internally consistent asset beta?

Annex 3.1 p8

Open & Transparent?

[Published PCFM]

All of Annex 3.1 section 2.5, 2.6 and Appendix 1

Financeable without transitional arrangements?

- assume some index linked debt?*
- equity injection/ lower dividend?*

Consider financeability under a range of scenarios?

A balanced & realistic ratings analysis including risk?

(Esp. footnote p43)

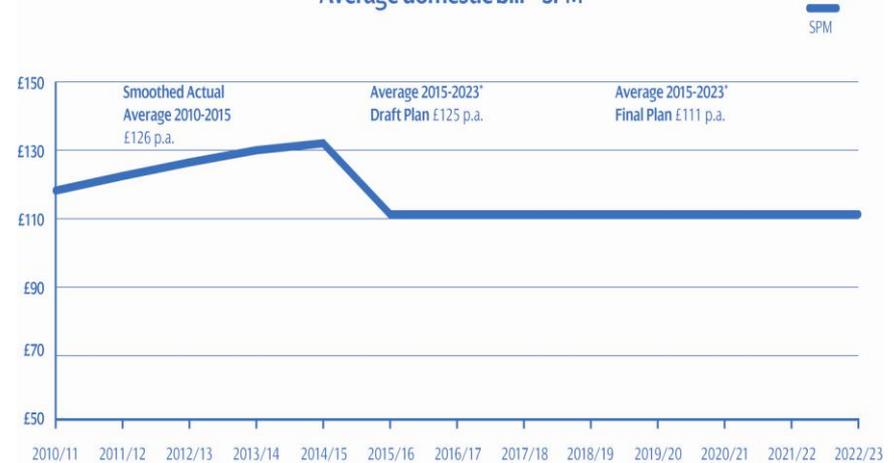
Customer Bill Impact

Chapter 12 and 13, Annex 3

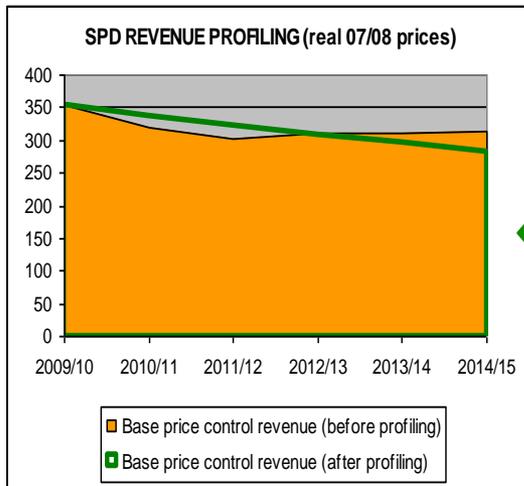
Average domestic bill – SPD



Average domestic bill – SPM



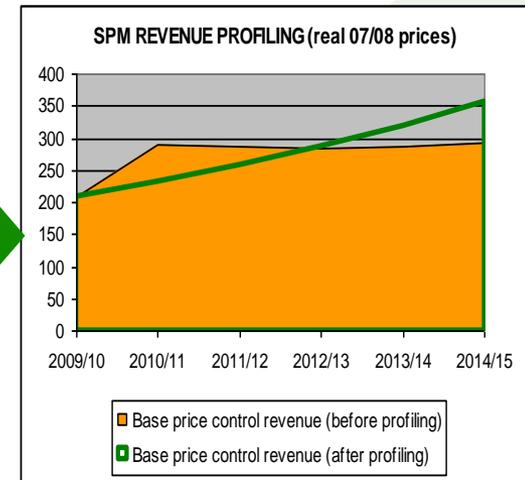
Why the +ve P0 in SP Distribution?



• Symptomatic of historical (DR4 into DR5) revenue smoothing decisions

• *Uniquely* – SPD ‘cliff-edge’ in depreciation allowances in 09/10.

• and *Generally* - At FPs Ofgem profiled revenues to reduce +ve P0s across the industry



Customer Bills reduce on average by 8% and 12%

PCRF 30 July 2013 - Appendices & References

Our Business Vision and Agenda

Enduring stakeholder engagement

Innovation strategy

Innovation funding in ED1

Customer service

Social obligations

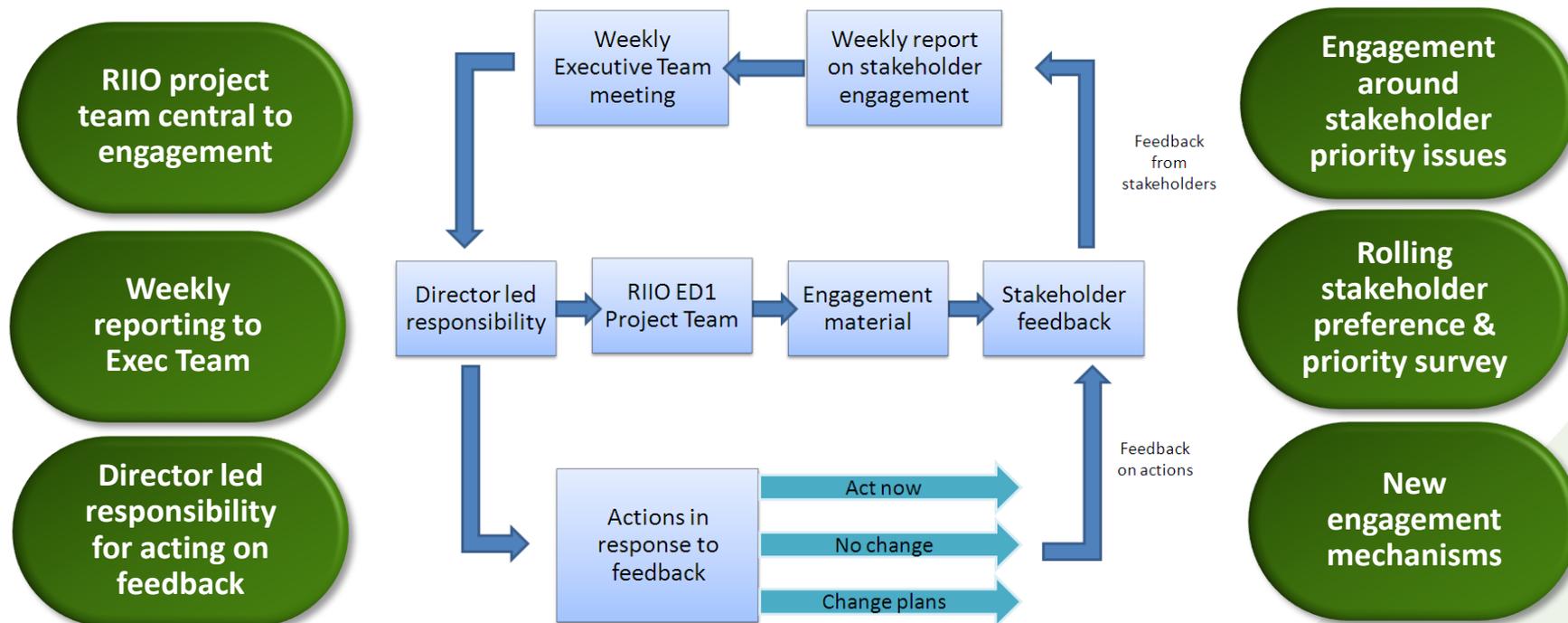
Connections

Our Business Vision and Agenda

- **A customer service focussed company, trusted in the eyes of our communities we serve and the stakeholders we depend upon**
 - *We have listened to stakeholders and acted in building our plans (Ch 6)*
 - *We have built plans that will deliver value for money (Ch 8, 9, 10 and 12)*
 - *We have set out a plan to transform the way our customers and stakeholders think of us*
 - *Our outputs exceed those required, those set by our peers and demonstrate our commitment (Ch 8)*
- **An engineering company with strong stewardship of our assets today as well as into the future**
 - *Our industry leading safety and resilience programmes will be continued (Ch 3, 5 and Ch 9)*
 - *Our plans to move to industry average load investment trigger will prepare our networks for future requirements (Ch 3, 5, and 9)*
 - *Our plan embeds DR5 innovation and sets a framework to embrace innovation during ED1 (Ch 7, 8)*
- **A company that attracts and develops the skills for the future across our supply chain from within our local communities**
 - *Working with local colleges, contractors, universities and across sectors to recruit and train our future workforce (Ch 10)*
 - *Develop the new skills and behaviours to meet our changing landscape*

Stakeholder engagement – ED1 & Enduring

Process in Chapter 6, detail in Annex 1, further evidence via links on website



Stakeholder engagement governance

- Weekly reporting to Executive Team on stakeholder feedback
- Lead director responsibility for actions in response to feedback
- Communicated response to feedback to stakeholders

Enduring engagement

- 2-year market research plan commissioned
- Engagement around priority issues
- Tailor mechanisms for engagement
- Extend use of on-line community to stakeholders
- 2013 plan includes contractor event, specific research activities, community engagement

Our innovation strategy



*Innovation referenced throughout plan,
Strategy in Chapter 7 & Annex 2.1*

Our costs and plan are >£100M lower from DR5 innovation being considered business as usual

Technology innovation

Dynamic Thermal Rating, Active Network Management, Partial Discharge Mapping, Fault Level Monitoring

Safety, Reliability & Availability, Environment, Connections

Commercial innovation

Non-firm Connection agreements for DG, Cable Laying Contract, Group Purchasing arrangements, New market participants

Connections, Environment, Customer Service

Process innovation

CRM System, Operational Excellence, Mobile Workforce capability, Recruitment

Customer Satisfaction, Reliability & Availability, Connections

HV/LV Smart Grid Solutions

- Saving for MVA capacity provided from Smart solutions

132kV Innovative Solution

- Saving and Environmental benefit of Phase Shifting Transformer

11kV Voltage Support

- Saving and Environmental Benefit of HV Statcoms

Retrofit/Refurbishment

- Saving from use of new retrofit and refurbishment options

Innovation embedded within our plans will deliver more than £100m of customer benefit

Innovation funding in RIIO-ED1

Stakeholder views Ch 6 and detail in Annex 1, Innovation Strategy Chapter 7

Application of Existing IFI and LCNF Projects

Dynamic Thermal Rating, Active Network Management, Partial Discharge Mapping, Fault Level Monitoring, Online Condition Monitoring, Secondary Substation monitoring, FPIs, Low Loss Transformers

Included within the Core Plan

Network Innovation Allowance

Short, Medium and Long term Initiatives, targeted at our Stakeholder priorities

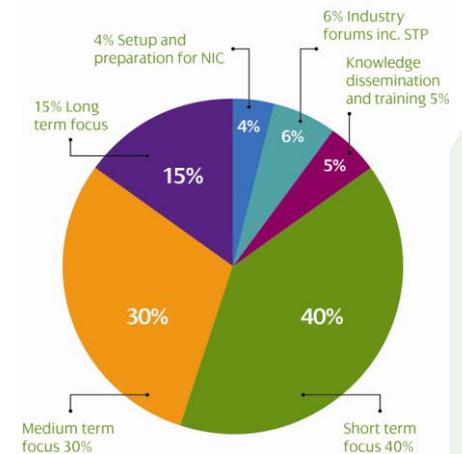
Network Innovation Competition

Advanced application of Smart Metering, DSO concept development, DSR, Smart Cities, Loss reduction, MV DC systems

Innovation Rollout Mechanism

Based on Cost benefit analysis of our own and other DNO technology developments

Proposed NIA Spend



Commercial innovation will be tested, developed and implemented during ED1 where this delivers positive CBA

Evolving relationships with demand customers / generators, learning from our own trials, other low carbon trials

We will use ED1 to set the foundations for future DSO

Over 50% of stakeholders we asked were in favour of an allowance of at least 0.75% based on our proposed strategy and benefits

Customer Satisfaction

Stakeholder views Ch 6 detail in Annex 1, Outputs Chapter 8

DPCR5:

- Transformation Programme
- Significant improvement 2012 & 2013
- Relentless focus on Connections

ED1:

Commitment to deliver industry leading customer service

Customer Service Measure Trends



Harnessing smart metering data:

- Revolutionising our customer relationship
- Proactive contact

Where we fail we will pay:

- Double Guaranteed Standard payments
- £10 where we fail to meet any other commitment

Overall looking to improve BMCS by 20%:

- Reduce the effect of Power cuts
- Good Quality Information throughout any contact
- Continue to be Number 1 for calls from customers
- Communicate through customer's channel of choice
- Provide hot meals and accommodation in storms
- Vulnerable after 12 hrs, other customers within 48 hrs

More simple and direct routes to deal with complaints

- Right first time approach to everything we do
- Never close complaint unless customer is 100% happy

Social Obligations

Stakeholder views Ch 6 detail in Annex 1, Outputs Chapter 8

Maintain an effective
Priority Services
Register

- Training to recognise and deal with vulnerable customers
- Contact all PSR registered customers every 2 years
- Mechanisms to share information with agencies and authorities
- Continue publicise via GP surgeries, post offices, libraries
- Continue annual Customer Awareness Campaign

Improve the services
available to vulnerable
customers

- Welcome letter to every new PSR registered customer
- During power cuts contact vulnerable customers at least every 4 hrs
- Contact vulnerable customers in advance of a planned interruption
- Continue work with communities to provide meals & accommodation
- Continue to make winter packs available to all vulnerable customers
- Automatically pay any guaranteed standard or commitment failure

Play our part

- Proactive I.D. and management of vulnerability
- Work with agencies to identify vulnerability
- Continue winter packs, awareness campaigns and proactive contact
- Work with 3rd parties /agencies to determine other levels of vulnerability

Work in collaboration
with the communities
we serve

- Continued investment in Experian fuel poor data to target initiatives
- Ensure network is ready for off gas grid customers to transition
- Establish a new SP Energy Networks fund within the Energy People's Trust
- Initiatives with Energy Action Scotland and National Energy Action
- Continue to work with agencies to improve understanding

Connections

Stakeholder views Ch 6 detail in Annex 1, Outputs Chapter 8

Delivering faster connections

Setting out to never fail a G.S. – if we do we will pay double
Working with customers to understand and meet their expectations
Deliver average time to connect amongst best in industry
Reducing our general reinforcement trigger by 20% (to industry average)
Deploy commercial and technical innovation

Providing first class service

- Build business, operating and improvement plans around the needs of customers and stakeholders
- Keep customers informed throughout process
- Proactive approach, minimising the need for customers to contact us
- Online facilities for customer quotes, payment and progress tracking
- Communicate with our customers through the channel of their choice
- Provide a dedicated account manager to our major customers

Continuing to facilitate industry leading levels of competition

- Promote competition
- Work proactively with ICPs and IDNOs
- Engage with Ofgem and ICPs to extend the boundaries of competition

Highlights of our outputs

Detailed outputs in Ch 8 , Our Outputs and Incentives

Output Area	We will
Safety Minimising the risks associated with distributing electricity	<ul style="list-style-type: none"> • Achieve zero employee lost time accidents • Work with contractors to reduce their accident rates by 75% • Remove high risk 'low' lines including those across roads by 2015 and all others by 2020 • Continue our industry leading approach to renew end of life cables in flats • Increase our extensive public education programmes
Reliability & Availability Ensuring our network is resilient to extreme events and reliable under normal circumstances	<ul style="list-style-type: none"> • Reduce the average number of times customers lose power by 7% • Reduce by 16% the length of time those customers have no power • Reduce by 25% the average time all customers are without power • Improve service to 40% of our poorly served customers • Improve service to 25% of our worst served customers • Reduce customers without power for more than 12 hours by 70% by 2016 and 100% by 2023. • Pay double Guaranteed Standard payments, excluding storms, where we make other arrangements • Introduce a voluntary Guaranteed Standard for restoration after storms
Environment Reducing our impact on the environment and playing our part in the low carbon transition	<ul style="list-style-type: none"> • Install lower loss transformers to reduce Electricity Supplier costs by up to £60M over the next 50 years • Reduce the carbon footprint of the business year on year • Reduce cable oil leaks by 50% • Buy equipment that far exceeds IEC international standards for SF6 insulating gas leakage rates • Underground 85km of overhead lines in areas of visual importance
Connections Providing excellent service to all customers who want new connections	<ul style="list-style-type: none"> • Continue to facilitate industry leading competition in our network areas • Improve our communication channels with customers • Improve availability and transparency of connection information and costs • Connect our new customers in time scales that are amongst the industry best • Pay customers double compensation for any Guaranteed Standard failure
Customer Satisfaction Continuously improving	<ul style="list-style-type: none"> • Improve our overall customer satisfaction scores by 20% by 2023 • Never force disconnect calls, always give the option to speak with a person • Communicate with customers proactively and in ways that they prefer • Pay compensation of £10 where we do not deliver an agreed action on your enquiry. • Continue to offer hot meals and accommodation to vulnerable customers after 12 hours in exceptional events, and within 48 hours to all customers'
Social obligations Recognising and meeting the needs of vulnerable customers	<ul style="list-style-type: none"> • Roll out an awareness campaign for our Priority Services Register (PSR) • Contact PSR registered customers every 2 years (minimum) • Contact PSR registered customers more frequently before planned outages and during emergency power cuts customer service • Train our people to recognise and deal with vulnerable customers sensitively • Establish a specific network fund within the framework of the existing Energy People Trust to target initiatives to help vulnerable customers

We are determined to deliver excellent customer service