

RIO-ET2 Sector Methodology Questions

General output questions

ETQ1. What are your views on the overall outputs package considered for this output category?

The Outputs element of the consultation aligns with the framework consultation and reflects what was discussed and debated in Ofgem's stakeholder Policy working group focusing on the incentive package.

The direction Ofgem set in establishing the RIO framework has led to significant customer and consumer benefit through the RIO-T1 output incentive areas: We have delivered performance levels that have increased levels of system reliability, improved our environmental impact and mitigated low carbon impacts, achieved high levels of customer and stakeholder satisfaction and increased efficiency in network planning.

In total for the full RIO-T1 period, for the level of out-performance across all our output incentives we are on track to earn a total reward of £31 million* We estimate this will cost the average domestic customer only 6p per annum less than 50p in total, per GB household, over the price control period. This shows the value of the output incentive mechanism and constitutes incredible value for money for existing and future consumers. The incentive mechanisms need to be effectively developed for the RIO-2 period and beyond if the energy system transition is to be effectively supported by network companies.

ETQ2. For each potential output considered (where relevant):

- a) Is it of benefit to consumers, and why?*
- b) How, and at what level should we set targets? (e.g. should these be relative/absolute)*
- c) What are your views on the design of the incentive? (e.g. reward/penalty/size of allowance)*
- d) Where we set out options, what are your views on them and please explain whether there are further options we should consider?*

Every potential output can bring benefit to current and future consumers. The detail of each incentive in the consultation requires more development and clarity but the proposals provide a good starting point. We have concerns that the timing to respond to these outputs, as effectively as we would like to, in our business plan submission is seriously limited by the timescales between the May decision and requirement to submit a business plan in July.

We support the removal of the Environmental Discretionary Reward (EDR), and support the introduction of an Environmental Framework. We believe this Framework incorporates a range of licence obligations and output deliverables which are positive and promote different types of incentives for different types of solutions. For example, embedding environmental initiatives in our business plans and reporting on these in an Environmental Action Plan (requiring a new output for an additional contribution to the transition as an ODI). SF6 must remain as an explicit output given its importance to low carbon targets.

However, the proposal to introduce penalties for late delivery of large infrastructure project was not discussed in any detail during the policy working groups. It controversially includes consideration of constraint costs as a means of measuring consumer detriment for the delivery of large projects. Constraint costs are calculated with reference to energy and are a factor of multiple, highly volatile and uncertain inputs. In the commercial environment no supplier would accept a pass through of such risk or liability. An incentive mechanism such as this would undermine the future commercial

framework, design and delivery of large scale projects. This could result in higher costs for consumers than the current arrangements for such projects.

ETQ3. What other outputs should we be considering, if any?

No new outputs are proposed in this section but there are potential opportunities in other sections such as whole system. This is an area that should target the ESO –TO interface between infrastructure solutions and reduction in constraint costs and could be an explicit incentive.

ETQ4. What are your views on the RII0-ET1 outputs that we propose to remove?

We support the removal of the EDR incentive. However, to ensure that the power of incentives (i.e. the value of the pot of money available) is not diluted, we believe this should be replaced with an alternative incentive measure, such as, a new low carbon incentive.

In addition to the above questions, where relevant, please see the supplementary output specific questions below.

Supplementary output specific questions

Stakeholder Satisfaction Output: Stakeholder Engagement Incentive

ETQ5. We welcome views on whether a specific incentive for stakeholder engagement is appropriate in RIIO-ET2, and if so, whether this should be reputational or financial.

It is important to retain positive financial incentivisation for customers and stakeholders in RIIO-T2. It has worked well in RIIO-T1 and provides a clear mandate for network companies to invest in resources and initiatives which deliver high quality outcomes for customers and stakeholders.

A Stakeholder Engagement incentive will become increasingly important in supporting the energy system transition as increasing numbers of new entrants and increasing interactions with third parties will be required. Stakeholder engagement should be retained as a separate incentive to customer satisfaction in order to reflect the increasing differentiation of these groups experienced over the RIIO-T1 period. Stakeholder engagement should build on the RIIO-T1 mechanism and target stakeholders with broad interests.

ETQ6. Do you think individual components of the SSO should be combined into a single incentive mechanism in RIIO-ET2, should the SEI and components of the SSO be retained?

We believe that there should be separate stakeholder engagement and customer satisfaction incentives. On this basis the SSO should evolve into a customer satisfaction incentive to reflect the specific service provision TOs provide to connecting and connected customers to the Transmission network. Surveys will continue to provide a good measure of satisfaction but are limited in driving increased levels of performance. A range of measures should continue to be used, including KPI's and external assurance. Improvements in the current mechanism are required to drive performance to the next level. We support the continued involvement of the TO User group to assess a balanced scorecard of performance measures.

ETQ7. We invite views on types of Business Plan commitments that would be appropriate for stakeholder engagement.

We will include Business Plan commitments for stakeholder engagement that have been co-created with stakeholders, and recommend that these are assessed annually by an enduring User group panel.

ETQ8. We welcome views on the potential approaches to setting a financial incentive for the SSO in RIIO-ET2, if retained. Are there any other considerations we should take into account if we move to a fixed reward pot that network companies compete for?

We propose retaining an annual customer survey and set of consistent KPI's for connected customers and connections customers. This annual incentive would ensure the network company was providing appropriate service levels to customers. The KPI's, survey question set and determination of the survey recipient list should be consistent between TOs.

Under the RIIO-T1 stakeholder engagement mechanism, our experience is that the ESO and TOs are very open and collaborative. This leads to better outcomes for consumers and customers because of the industry framework established under BETTA¹ which requires tripartite processes (as enshrined in

¹ <https://www.ofgem.gov.uk/ofgem-publications/64116/1105-factsheet070215april.pdf>

the SO-TO code) to deliver our customer outputs. We are concerned that the introduction of a fixed reward pot would undermine this valuable collaboration, as TOs would now be driven to seek a competitive advantage over each other by limiting sharing of best practice. The deterioration of the partnership between ESO and TOs would ultimately be to the detriment of GB users of the Transmission system.

Stakeholder Satisfaction Output: Satisfaction Survey, KPIs, and External Assurance components

ETQ9. Do you have any views on whether we should retain a TO User Survey, targeted at a number of key areas as identified in this document? Are there any alternative mechanisms to address potential issues in these areas we should be considering?

See response to ETQ8

ETQ10. Are there any other areas, beyond those identified in this consultation document, which we should consider targeting through a potential survey?

See response to ETQ8

ETQ11. Do you have any views on our proposal to retain one question on overall satisfaction from which the scores will be collated?

Incremental improvements to overall satisfaction become increasingly difficult beyond a score of 8 out of 10. Spreading the reward across the question set could deliver more benefit to customers by driving performance in specific areas.

ETQ12. Do you agree that we should use RIIO-ET1 performance as a starting point for setting a RIIO-ET2 baseline? What alternative approach(es) should we consider?

RIIO-T1 performance is a good starting point and can be developed to identify a consistent baseline across all TOs. It is important to recognise the level of improvement will be incremental compared to RIIO-T1 and appropriate incentives are required to maintain focus and effort in these areas.

ETQ13. Do you agree that the User Groups could provide guidance on the stakeholders that should be included in the survey sample? Are there any specific stakeholders that you think must be surveyed to improve the validity of the scores?

Yes, the TO User Group can provide guidance and should retain an enduring role in the assessment of performance. We believe that the survey should focus on those connected to the network and those connecting to the network, with broad interest stakeholder engagement assessed separately and not by survey.

We also think it's important that the set of stakeholders selected for survey is consistent across GB. Therefore, this list should be set from the outset of the price control.

ETQ14. Do you agree with our proposals to remove the financial incentive associated with the KPI and EA components? Should the EA component be retained as a minimum requirement/licence obligation?

We do not agree that KPI's and EA components should be entirely removed from contributing to a financial incentive. We do agree they should be de-linked from explicitly contributing to the performance calculation which determines the financial reward or penalty, as they do currently.

We believe both these components have been very effective in driving performance in the processes and priority given to our customer facing outcomes in RIIO-T1. The KPI's add merit as quantitative measures and add balance to the assurance process and report provide through the EA. It is

important these are maintained in RIIO-T2 but need to be developed to allow a more flexible approach to improving performance in customer facing areas.

A better approach would be to encourage TO's to change KPIs through the price control to target different areas and provide a quantitative measure of performance tracking improvement over time. This is more effective than measuring performance against a fixed baseline setting the reward position, which tends to dis-incentivise targeting poor performance areas. These are most effective in customer facing processes.

We believe external assurance should be retained and used to assess performance as the accountability and feedback these have provided over RIIO-T1 have been instrumental in highlighting improvement opportunities.

We recommend retaining KPI's and external assurance as part of a broader approach to determining customer and stakeholder performance. We believe the TO User Groups, established to support the price control process, should become an enduring body and given a role to play in assessing our performance in these incentive areas and incorporate EA and KPIs evidence in their determination. We see some precedent for this in the new ESO incentive arrangements.

Timely Connections Output

ETQ15. Do you have any views on whether we should retain the RIIO-ET1 Timely Connections Output (which applies to the connection offer stage) for RIIO-ET2, including the penalty rate, and extend it to NGET?

Yes, we support the retention of the penalty incentive to ensure the focus across TOs and ESO to deliver our STC obligations is clear.

We agree that the RIIO-ET1 Timely Connections Output should be extended to NGET, to ensure parity across each TO. Any failure to implement this will have an impact on the output required, i.e. a connection offer made within a reasonable time. In terms of the penalty, whilst we agree with the overall cap (0.5% of base revenue), it may be prudent to also consider how the penalty rate is applied where there is no obvious or ascertainable customer detriment. We appreciate that the "strict liability" element of the penalty is designed to ensure the timescales are met, however we believe that our customer service has significantly shifted in parallel (and often exceeds) expectations. Consideration ought to be given to a "no harm/no foul" regime or a penalty that is based on incremental days late (i.e. a value per day). We also believe that the penalty is blind to any offers made early and from an equitable perspective, it does seem to be fair to ignore these when reviewing late offers and the appropriate sanction.

ETQ16. Do you have any views on options for capturing the quality of the overall connections process through our stakeholder engagement proposals, for example through the use of a survey?

We already survey our connection customers within our annual survey and support the proposal to make this explicit. Feedback from our connecting customers has informed the proposal that the quality of the offer is increasingly important as well as timeliness.

Customer feedback is crucial to improving our activities and surveys are one way of capturing of this and assessing performance. We believe the survey should reflect questions on the overall customer experience, but also to be sophisticated enough to target process improvement which can be complex.

We note Ofgem suggest (para 3.61) that use of the survey could be used to provide comparison of TO's performance in this area. We would highlight that the number of respondents to transmission surveys are relatively low (typically in the tens) and therefore of limited use as statistically effective benchmarking tools.

ETQ17. Are there any alternative options for capturing the quality of the overall connection process, not identified in this consultation document, which we should be considering?

We engage with our customers throughout the connections process, but recognise there are opportunities to improve this that could lead to more consistent. The linkage to the customer satisfaction survey is an effective way to measure this and capture feedback to improve the quality of offers. It is worth noting we do measure the quality of offers as one of our RIIO-T1 stakeholder satisfaction KPI's² under SpC 3D, and our performance is very high level year on year. This KPI is however, based on a limited definition of a "quality" and we think this definition can be developed for RIIO-T2 to meet the increasing requirements and expectations connecting customer now have.

We believe that both quality and timely service in the connections process are both significant for our connecting customers. We consider that the connection process should be rewarded for quality above licence obligations and "penalised" for late submission out with licence obligations. Submitting offers early should not be rewarded.

We propose introducing a survey after a "pre-application meeting" and then a second survey conducted following submission of the final connection offer by NGESO to customers. The first survey will provide measurement in a manner that can be used with experienced and inexperienced developers. We think a survey of the TOs at this stage would indicate and set expectations early in the overall process, and that the measure from this should be around the value of the information on the (i) contractual process (ii) network capability (iii) project related information and (iv) what happens next. The survey should reflect how informed the customer is on the connection process and how satisfied they are with the information provided.

We believe that this process should be incentivised to reflect the quasi consultancy nature of this part of the process and the additional time and resource the TO will need to provide as an alternative or addition to the role consultants have historically filled. Where customers experiences are not what they consider to be satisfactory, this will be reflected in the survey and the TO will have to absorb the time and cost of their efforts for this. This provides a powerful incentive.

ETQ18. How do you think we can ensure that transmission operators are not rewarded and/or penalised for actions actually undertaken by the System Operator?

The level of shared contribution to the transmission connection offer process will inevitably make it difficult for actions by either TO or ESO to influence customer perceptions of both companies. We see this as reinforcing our view that collaboration is clearly to the consumers' benefit. It is important that this collaboration is providing a seamless experience for customers irrespective of the tripartite nature of the process. TOs and ESO should be encouraged to share customer feedback that will shine light on areas for improvement in both organisations. Sharing KPI's, such as the number of variations required post offer and identifying the attributable cause to each organisation, may be a mechanism to highlight relative performance.

We believe that the ESO should self-monitor and report on the quality of information that it is issuing to the TOs. For example, in the application process we would expect that the ESO critically reviews

² SP Transmission Stakeholder Satisfaction Incentive Methodology –Updated Sept 2013

the information provided from a customer to ensure that it fulfils basic requirements. We also consider that a formal survey on the ESO performance against specific defined criteria in the connections process should be afforded to the TOs, as well as customers. This will ensure transparency and clearly show any outliers or areas of performance improvement.

Energy Not Supplied

ETQ19. Do you have any views on whether we should retain the ENS incentive, and whether we should retain it as a positive reward mechanism, or move towards a penalty-only scheme? What impact could the move to a penalty-only mechanism have on TO decision-making and behaviours? Please evidence.

The current ENS reward works well and drives our approach to mitigating the risk of energy not being supplied to large demand customers and multiple distribution connected consumers alike and should be maintained as an explicit asymmetric incentive.

A penalty only mechanism would not reflect the fact that ENS is a complex measure caused by multiple factors including some that are beyond the control of the TO's. The incentive currently encourages risk mitigation above our licence obligations which we explain below:

The impact of an outage on our transmission network can be felt by directly connected transmission customers and distribution connected consumers alike. The ENS incentive is limited to demand customers and is not sensitive to differentiate between these types of customer. Typically a directly connected transmission customer is restored quickly in the event of a fault. Distribution connected customers may be exposed to longer duration outages due to the reduction in design contingency at lower voltage levels.

For example, a transmission outage of a circuit supplying a GSP substation reduces the security of supply to the GSP by half and the NETS SQSS³ allows for this risk. A GSP is typically designed with sufficient security to comply with the NETS SQSS by connection of two circuit in-feeds. This is the normal operating condition, and sufficient capacity is provided such that the loss of one in-feed will be supported by the second circuit without interruption to any supply. In a planned outage scenario, one circuit is withdrawn from service to carry out work and the GSP is connected only by the remaining circuit. Should a fault occur on this circuit during the planned outage of the other circuit, the supply to the entire GSP will be lost.

Our ENS mitigation ensures that in this event our distribution customers can be restored as quickly as possible. This is over and above our licence obligations as defined in the NETS SQSS the benefit the current ENS incentive supports.

ETQ20. Do you have any views on how Ofgem should take into account issues other than past performance when determining baseline targets? For example, processes adopted as BAU, increased TO experience and expertise on fault mitigation and management, future modernisation projects, etc. What adjustment mechanisms are appropriate?

Past performance is the main indicator for setting baseline targets but is limited in that it does not reflect the increased level of outages that are required to be taken by TOs to accommodate the significant increase in new construction, reinforcement and new connections that are being driven by the energy system transition. ENS incentivises behaviour to mitigate the risk of unplanned outages above the NETS SQSS acceptance of loss. This is a business as usual activity but this does not mean it should be funded as baseline allowance. Retaining an incentive ensures the focus is kept and

³ <https://www.nationalgrideso.com/sites/eso/files/documents/NETS%20SQSS%20V2.3.pdf>

presents value for money for consumers who are protected above minimum standards. The risk of catastrophic failure which incurs a significant loss of supply is low, but would significantly affect the ENS targets going forward. The potential adoption of a rolling target based on performance within the price control might be an effective way of balancing the risk to consumers of exceptional performance (which can be influenced by factors out with the control of the network company) with the lower risk of large outages on network companies⁴.

ETQ21. Is the introduction of an improvement factor appropriate within the context of the electricity transmission system? What other mechanisms are appropriate?

An improvement factor would present an overly sophisticated attempt to link changes in the level of reward to different behaviours. This would assume a sensitive correlation exists between the mitigation measure that can be undertaken and the associated level of ENS that may or may not occur. In reality external factors such as the different volumes of demand connected to each circuit, a particular combination of outages, the different types of work being undertaken or the level of wind on a given day provide much more significant variations in the potential level of ENS that might materialise for a given fault irrespective of what mitigation measures are undertaken.

ETQ22. We welcome views on additional considerations we should take into account when setting baseline targets?

An overly sophisticated approach to calculating baseline targets will not necessarily create a change in the incentive performance or behaviour due to the significant external factors that can influence the value of ENS for a particular incident .

ETQ23. Do you agree with our proposals to base the ENS incentive rate in RIIO-ET2 on an updated, agreed VoLL?

This is a reasonable approach but it is more important that the level of incentive is not undermined due to the reasons outlined in previous answers.

ETQ24. Do you agree with our proposals to retain the financial collar for the ENS incentive in RIIO-ET2?

It is appropriate to retain a collar to mitigate the risk of high value ENS incidents occurring that could quickly wipe out the incentive reward and undermine the ongoing incentive to mitigate ENS in the same year.

ETQ25. We welcome views on approaches to estimating embedded generation at GSP points.

For the reasons provided in ETQ 21 that multiple factors affect the level of ENS that may materialise for a given incident resolving the perceived impact of embedded generation does not necessarily change the level of incentive and mitigating actions that a network company will undertake. The risk of increasing the complexity of the ENS calculation undermines the benefit of including this as a factor. The existing distribution incentive of customer minutes lost (CML) or customer incident (CI) could be adopted in place of ENS and could be a more practical, accurate way of measuring customer impact than ENS in our network area.

ETQ26. What measures need to be in place to facilitate the collection of data on embedded generations and other real time information? How do you propose to approximate embedded generation data?

⁴ Please see accompanying document "Approach and Examples to Mitigating the Energy Not Supplied (ENS) Risk to Consumers" for further details.

It is impossible to measure real time embedded generation accurately. Approximations and assumptions would be required, which undermines the value of trying to achieve this. Even if the capacity of all connected generation was known – which it is not, particularly for small sites – the real time generation values would be variable dependent on availability and for example for wind or solar generation, the prevailing weather conditions.

ETQ27. We invite views on changing the metrics used to measure reliability on the transmission system from MWh lost to CI/CML. What measures and processes (e.g. data sharing frameworks) need to be in place to facilitate the collection of CI/CML data?

Please see ETQ25 above. We do support CML/CI as a better proposition than trying to incorporate embedded generation in the ENS calculation. However, the current ENS incentive is working well and does not need to become more sophisticated in terms of how it is calculated.

ETQ28. Do you have any views on whether all loss of supply events should be incentivised? Do you have any views on amending the scope of the definition of events excluded as ‘loss of supply events’ and/or ‘exceptional events’?

The level of reward /penalty is currently delivering benefits for consumers and this is more of a significant influence on the priority we have to mitigate risk of ENS than adjusting the incentive target of calculation. The list of exceptional events is fairly comprehensive and in general we think these are sufficient, but there may be some opportunity to provide greater clarity. For example by including in the list:

- HILP events, Black Start, and cyber-attacks explicitly;
- Frequency events resulting in automatic frequency relay's operating (which is under the control of the ESO); and
- Rota disconnection and emergency load shedding where requested by the ESO

Deliver an environmentally sustainable network

General output questions

ETQ29. What are your views on the overall outputs package considered for this output category?

The Outputs element of consultation aligns with the framework consultation and reflects what was discussed and debated in Ofgem's stakeholder Policy working group focusing on the incentive package.

The scope of the incentives package is disappointing given the potential value to consumers of the output incentive mechanism. The direction Ofgem set in establishing the RIIO framework has led to unprecedented levels of performance in the RIIO-T1 output incentive areas. This is delivering value for money for consumers and needs to be developed for the RIIO-2 period and beyond if the energy system transition is to be effectively supported by network companies.

As we have highlighted in our response to ETQ1 the impact of the RIIO-T1 output incentive package on the typical domestic consumer is very small, yet the benefits are significant.

Every potential output can bring benefit to current and future consumers. The detail of each incentive in the consultation requires more development and clarity, but the proposals provide a good starting point. We have concerns that the timing to respond to these outputs as effectively as we would like in our business plan submission is seriously limited by the timescales between the May decision and requirement to submit a business plan in July.

We support Ofgem's proposal to introduce an Environmental Framework. This incorporates a range of licence obligations and output deliverables which is positive and promotes different types of incentives for different solutions, which is important. For example, include embedding environmental initiatives in our business plans; reporting on these in an annual environmental report and requiring a new output for an additional contribution to the transition as an ODI. SF₆ remains as an explicit output. However, to ensure continued improvement in these areas and support the transition to low carbon energy future, an alternative incentive measure should be implemented so that companies strive to go "above and beyond" as incentives have proven to do.

Generally, a move to embed sustainable development in the decisions which shape our network is welcomed and is in line with the expectations of our stakeholders. This approach better reflects the legislative context in areas such as planning and environment.

ETQ30. For each potential output considered (where relevant):

- a) Is it of benefit to consumers, and why?*
- b) How, and at what level should we set targets? (e.g. should these be relative/absolute)*
- c) What are your views on the design of the incentive? (e.g. reward/penalty/size of allowance)*
- d) Where we set out options, what are your views on them and please explain whether there are further options we should consider?*

OUTPUT: Environmental considerations embedded in business plans

We support the proposed environmental framework in RIIO-ET2 with environmental considerations embedded in business plans. We believe this approach increases both transparency and cost effectiveness, and therefore is of benefit to consumers.

OUTPUT: Annual environmental performance reporting

Annual environmental performance reporting will increase transparency and therefore be of benefit to consumers and stakeholders. We support the adoption of a common approach between TOs to reporting; however, the opportunity should exist for TOs to specifically focus on areas specific to their own licence area, their own program of work or their own stakeholders' needs. Targets should not penalise TO's for network growth.

We support the role of the TO User Group to provide feedback on the validity of the report's contents.

OUTPUT: SF6 and other IIG leakage

Please refer to our responses to ETQ39-42.

OUTPUT: Mitigating visual amenity impacts in designated areas

Please refer to our responses to ETQ45-48.

OUTPUT: Additional contribution to low carbon transition

Please refer to our responses to ETQ36-38.

ETQ31. What other outputs should we be considering, if any?

Embedding measures such as Biodiversity Net Gain in the baseline for projects will not only ensure that outputs are measurable but also achievable, with a mature and well understood framework already in existence at a national level.

There should be an OPEX type mechanism to develop a unified Natural Capital approach across all TOs by the end of the price control which would then inform future price controls. This would also ensure truly sustainable decision making is embedded at the heart of network investment decisions. The approach to Natural Capital should be unified across the industry and not individual to TOs. There is a need to present a consistent set of outputs across the UK, which can only be achieved if the same metrics are used.

We also believe that there should be some form of social output. This could link to natural/social capital but again should form a consistent measurement and consistent metrics; something which does not exist at present.

ETQ32. What are your views on the RIIO-ET1 outputs that we propose to remove?

We support the removal of the Environmental Discretionary Reward (EDR), on the basis that companies are able to access environmental funding through baseline funding as this ensures that we are able to retain an environmental focus.

In addition to the above questions, where relevant, please see the supplementary output specific questions below.

Supplementary output specific questions

Environmental framework - Business Plans and annual monitoring

ETQ33. Do you have any views on the extent to which company activities relating to environmental impacts should be embedded in Business Plans?

We agree the company activities relating to environmental impacts should be embedded within the Business Plans. However, TO's must not be penalised during the business plan benchmarking process or efficiency assessments for the inclusion of associated costs within their business plans. Environmental costs, where justified, should be permitted to allow companies to deliver their business plans in a more environmentally sustainable way.

Costs associated with environmental regulatory compliance should be fully embedded with the Business Plan. The levels of ambition beyond environmental legislative compliance will be specific to each TO and reflect individual licence areas, their own programme of work and their own stakeholder's needs. Any benchmarking exercises, efficiency assessments or comparison of levels of ambition should be mindful of this.

Any business plan benchmarking or efficiency assessments should also be cognisant of the variability of costs associated with environmental management. The costs of avoiding, reducing or mitigating environmental impacts can be highly variable and influenced by, for example, the sensitivity of the receiving environment, the nature of the project/activity, stakeholder opinion, the supply chain and may vary across regulatory regimes.

ETQ34. We invite views on whether the proposed environmental impact categories are appropriate areas to focus on. Are there any areas that should be excluded and/ or other areas that should be covered? We also invite views on the potential indicators and/ or metrics that are appropriate for each environmental impact category.

While the proposed environmental impact categories do not necessarily represent all impacts, we agree that the categories identified by Ofgem represent areas in which measures to ensure continual improvement should be focussed over RIIO-ET2. For avoidance of doubt, environmental impacts will continue to be managed in accordance with relevant legislation including planning and EIA where appropriate.

In our view, measuring and reporting of these impact categories should be undertaken in accordance with relevant technical standards, frameworks and guidance. We fully support consistent reporting, where appropriate, across TOs during RIIO-ET2 and will continue to collaborate with the other TOs during the ongoing development of our Business Plan. We provide example indicators and/or metrics below:

Carbon – we support reporting carbon in accordance with current guidelines such as Environmental Reporting Guidelines: including Streamlined Energy and Carbon Reporting Requirements (HM Government, Jan 2019) and associated documents. We support, where appropriate, the use of normalised data to facilitate comparisons over time and between organisations. Targets should not penalise TO's for network growth.

Biodiversity – we support the use of Biodiversity Net Gain, utilising DEFRA methodology where appropriate. This approach provides outputs which are measurable but also achievable. There are also benefits from utilising a mature and well understood framework already in existence at a national level.

Natural Capital – as noted previously in ETQ 31, the approach to Natural Capital should be unified across the industry and not individual to TOs, for example the metrics which are used and the need to present a consistent set of outputs across the UK.

ETQ35. We welcome views on the option of an annual reporting framework to increase transparency of the transmission networks' impact on the environment.

We support the implementation of an annual reporting framework.

The proposed Environmental Impact Report presents an opportunity for TOs to focus on areas specific to their own licence area, their own program of work or their own stakeholders' needs. This would represent a better approach as opposed to a defined list of outputs which may not be the same for all TOs or their stakeholders.

Potential for bespoke ODIs around the low carbon transition

ETQ36. We welcome views on whether we should introduce an option for the TOs to develop bespoke ODIs with stakeholders for delivering an additional contribution to the low carbon transition.

An ODI which will specifically drive GBs low carbon agenda is welcomed. We agree that this must be developed with stakeholders. Therefore, we will be asking our stakeholders for their view on any potential low carbon incentives as part of our RIIO T2 stakeholder engagement process.

ETQ37. We invite views on the kind of activities, not captured elsewhere, that could be captured through such ODIs.

We support suggestions within the Ofgem consultation document that outputs could capture activities that drive the TOs to seize opportunities presented by new technologies, new ways of operating and innovative commercial arrangements.

Due to the new technologies associated with a low carbon roll-out, new training will be required to be provided to staff with relevant updated training associated with new engineering innovations. We would welcome the opportunity for further work to identify how we encourage closer working with local "green" supply chains to help not only boost a low carbon agenda, but boost local economies in a way which was compliant with state aid, competition and procurement law.

ETQ38. We invite views on how such an ODI might operate, and any other factors we should take into account in considering bespoke ODI for the low carbon transition.

We will be able to provide further information on this policy initiative once we have concluded our stakeholder engagement consultation exercise. Our stakeholders' views are of upmost importance to us, so we wish to reflect their "low carbon" views accurately.

SF6 and other insulation and interruption gases (IIG) leakage

ETQ39. We welcome views on whether we should retain a financial reward and penalty incentive for the leakage of SF6 in RIIO-ET2, or move to a penalty only or reputational incentive.

We support the retention of a financial reward and penalty for the leakage of SF₆, and do not support a move to penalty only.

ETQ40. We welcome views on the potential impact of a move away from a financial incentive (or move to penalty-only) on TO behaviours.

The existing financial reward associated with SF₆ leakage creates a drive to outperform industry standards. Conversely, the penalty is there to penalise those that are unable to manage their SF₆ fleet by minimising any leaks that would impact on the environment, thereby driving behaviours to ensure efficient management.

ETQ41. We invite views on whether leakage from other IIGs should also be captured in the incentive measure.

We do not support the inclusion of leakage from other IIGs in the incentive measure during RIIO-ET2. Our view is that the current SF₆ leakage incentive should continue during RIIO-ET2 to focus specifically on reducing SF₆ leakage rates and improving management of existing SF₆ assets.

The market for SF₆-alternative technology continues to develop, with few alternatives currently available. The availability of SF₆-alternatives is predicted to increase during the RIIO-ET2 time period however, until the market matures and the performance of these alternatives can be confirmed, any incentive measure which may inadvertently restrict the development of any SF₆-alternative within the supply chain should be avoided.

Additionally, we support the continuation of the yearly baseline adjustment mechanism from RIIO-ET1, where SF₆ baselines are adjusted each year to account for new assets containing SF₆ that are added to the network. In some cases, SF₆-alternatives are not commercially available with the only currently-available, viable solution containing SF₆. We will continue to work with the supply chain to support the development of SF₆-alternative technologies, and would support increasing the SF₆ baseline when new SF₆-containing assets are added to the network, but only where justified and non-SF₆ alternatives are available.

ETQ42. We welcome views on whether some leakage events should continue to be excluded from the incentive.

Leakage events should continue to be excluded from the incentive.

SF₆ Exceptional Events, as defined in in the licence (Special Condition 3E), are outwith reasonable control of the licensee and will (infrequently) occur. The removal of these events overshadows a company's good performance under normal conditions and attitude towards managing their assets. The carbon impact of SF₆ emissions, resulting as a consequence of an exceptional event, is captured in the Business Carbon Footprint reporting thereby capturing the impact associated with these events.

Electricity losses from the transmission network

ETQ43. Do you have any views on the proposed approach for integrating any losses reporting requirements into the proposed Business Plan and annual public reporting framework?

We support the proposed approach, which will raise the profile of transmission losses and prompt greater engagement with stakeholders while recognising that losses are largely outside the direct control of the TOs. Embedding the losses strategy in business plans and the annual losses report in an overarching environmental report will help ensure that transmission losses are considered in an appropriate context, which is to achieve decarbonisation of the energy supply in GB at least cost to consumers.

ETQ44. Do you have any views on the introduction of a target or measure for improving metering at and the energy efficiency of substations? How could this work in practice?

We agree that there is a lack of data on the potential benefits of an incentive in reducing losses in substation auxiliaries but based on our recent work we are confident that losses reduction

opportunities are relatively small and will depend on the specific circumstances. It is important to acknowledge the essential role played by heating, ventilation and cooling systems in substations as well as the energy required to operate the protection, control and monitoring systems that enable a smarter and more flexible grid. Safety, security, reliability and efficient asset management all depend on the energy consumed in substations, which is a very small proportion of total transmission losses.

We support the sharing of outcomes from trials and studies to help each TO identify where efficiencies can be made through energy saving measures in a cost effective way appropriate to the conditions in each substation. We believe that investment is better focused on directly improving energy efficiency than in metering.

Visual amenity impacts of transmission infrastructure

ETQ45. We welcome views on incentivising the TOs' engagement with stakeholders on the development of new transmission projects through our stakeholder engagement proposals, for example through the use of a survey.

Visual amenity is one of a range of factors taken in to account when Ministers decide to grant S37 consent or not. In preparing our proposals we take an approach that is standard across our industry to weigh up multiple, sometimes competing, factors. Appropriate public consultation on this also shapes our proposals. Any Ofgem incentive in this area needs to be in keeping with these other considerations and not give rise to the potential to skew considerations (for example they shouldn't lead to the risk that the views of those likely to take part in an Ofgem survey would be given more weight than those less likely to participate in a survey).

The existing stakeholder framework includes an annual survey. In SPT we include those impacted by our works as a category for the survey, with targeted questions used to help us improve engagement, as well as the 'killer question'. We believe this approach is proportionate.

ETQ46. Do you have views on the retaining the existing scheme to mitigate the visual impact of pre-existing transmission infrastructure in designated areas? Do you agree that any decision to implement new funding arrangements should be subject to updated analysis around willingness to pay?

As the allowance can only be used in National Parks and National Scenic Areas (Scotland), it does not, in our view, adequately reflect the full range of nationally important landscape receptors across the country. The current limited scope does not represent the interests of our stakeholders or consumers in Central and Southern Scotland. In addition, the scope does not adequately reflect the statutory obligations which exist within the Electricity Act 1989 (Schedule 9) in relation to visual amenity.

The RIIO-ET1 process provided an opportunity to examine and, where appropriate, address the visual impact of pre-existing infrastructure in designated landscape areas. This process began for SPT by seeking the involvement of our stakeholders in developing a robust policy document and by making an assessment of all qualifying infrastructure within SP Transmission's Licence area. An assessment was undertaken to identify the locations where transmission infrastructure has the greatest level of impact upon qualifying areas (National Parks and National Scenic Areas). This exercise confirmed that only 3% (approximately 124km) of the total infrastructure within the SP Transmission licence area would qualify for the project and of that; less than half was deemed to have any opportunity for successful mitigation.

In all cases, once technical feasibility had been taken into account, stakeholders were in favour of a landscape based approach to mitigation where landscape enhancement projects would be developed to help reduce the impact of the infrastructure in situ or re-focus the receptor through paths or public access areas and the use of tree planting. The inherent sensitivities of proposing large scale

engineering activity in locations such as national parks was a key consideration for stakeholders. The importance of habitat, ecology and other factors cannot be underestimated within the boundary of designated sites. Of the proposed schemes to be taken forward, a number of those have been subject to significant obstacles that further highlight the potential difficulty in delivering outputs in such highly sensitive locations. For example, ecological constraints have limited the ability to fully develop them in line with a broad range of specialist interests, another inherent difficulty in considering visual amenity in isolation.

Should this mechanism be maintained, we would like to see it enhanced to cater for a full range of nationally or internationally important designations which relate to the potential impact of existing infrastructure. A number of our stakeholders observed that due to the high volume of 'landscapes of quality' in Scotland verses the relatively low population pressures on such locations, combined with freedom of access, has historically led to a difference in approach to the use of landscape and amenity designations north and south of the border. Ultimately, this has led to a lack of opportunities to address landscape beyond the limited designations, impacts from existing transmission infrastructure under the current scheme, for example in areas of historical significance.

ETQ47. Do you agree with our proposals to modify the implementation process by which funding requests for mitigation projects are submitted and approved?

It is suggested that 2.5% of the overall allocation, to be determined by a future willingness to pay survey, would be available for "small scale landscape projects". Such projects are defined as having a value of up to £200,000. Under the current values associated with visual amenity (£500 million) this would equate to approximately 60 projects to be progressed over the 5 year price control period. It is not evident from the experience of any TO through the current price control period that this level of deployment could or would be achieved.

It is not clear how a figure of £200,000 has been arrived at. We would like to see consideration of a higher allowance for each project allowing larger more diverse landscape enhancement projects to be considered by our stakeholders.

ETQ48. We welcome stakeholders' views on any other considerations they think are relevant to policy development for visual amenity issues in RIIO-ET2.

Policy development for visual amenity in RIIO-ET2 should reflect the challenges and stakeholder views across all transmission licence areas. In a Scottish context, there are only 2 National Parks as opposed to 13 in England. In Scotland, only around 32,000 people live in National Parks and their land mass reflects only a very small percentage (6,000 sq km out of over 80,000 sq km). Assessments undertaken during ET1, confirmed only 3% (approximately 124km) of the total infrastructure within the SP Transmission licence area would qualify under the ET1 criteria with less than half deemed to have any opportunity for successful mitigation.

The current limited scope as outlined in Special Licence Condition 6G does not reflect the broad range of landscapes that exist in Scotland and does not in SPTs view represent the interests of our stakeholders or consumers in Central and Southern Scotland. In addition, it does not adequately reflect the statutory obligations which exist within the Electricity Act 1989 (Schedule 9) in relation to visual amenity.

An appropriate mechanism which fully considers the potential impacts of pre-existing infrastructure on the landscape and which allows stakeholders to shape and influence proposals, as opposed to them being defined at the outset of the price control period, is required in relation to visual amenity.

5. Maintain a safe and resilient network

General output questions

ETQ49. What are your views on the overall outputs package considered for this output category? & ETQ50. For each potential output considered (where relevant):

- a) *Is it of benefit to consumers, and why?*
- b) *How, and at what level should we set targets? (e.g. should these be relative/absolute)*
- c) *What are your views on the design of the incentive? (e.g. reward/penalty/size of allowance)*
- d) *Where we set out options, what are your views on them and please explain whether there are further options we should consider?*

The level of detail provided in the consultation is not sufficient to allow stakeholders to respond easily to these questions. There is little quantitative information provided to allow assessment or judgement on the level or type of target.

As a network company we will be providing our proposals for incentives in our business plan submission. In general, these will build on the success of the incentive package in RIIO-T1.

In respect to safety, the approach proposed is appropriate as safety is clearly an area with significant legislative and wider legal obligations. A reputational incentive is therefore appropriate and could be strengthened with a specific obligation placed on network companies to report on their safety performance and improvement initiatives to inform stakeholders and provide a lead for other organisations.

The Network Access Policy (NAP) has been extremely effective in the RIIO-T1 period to improve co-ordination and communication across the ESO-TO outage processes. This should be retained and developed to include reporting of shared metrics that demonstrate the value of this incentive.

These could include network availability, volume of outages, constraint cost mitigation, etc. The NAP should become a single shared document across all TOs and extended to clarify roles and responsibilities for communication and engagement with connected customers.

The proposal for an incentive on the successful delivery of large projects is misplaced. Network companies already have significant reputational, commercial and licence obligations to deliver projects successfully.

Para 5.32 of the consultation states: *“When these projects are delayed or not successfully delivered to the required level of quality, it can be detrimental to consumers and result in an increase in system constraint costs or security of supply implications”* This proposition does not reflect the complexity of factors that influence the delivery of large capital projects. For example, the linkage to constraint costs as a relative measure of the impact of a perceived delay is misplaced and could result in detrimental consequence for consumers. The forecasting and calculation of actual constraint costs is highly complex and subject to significant uncertainty due to factors such as generation levels on a given day. The variation in actual constraint costs for the unavailability of a particular project compared to a forecast delivery date could be massive. It would be impossible to effectively design and deliver a project with the threat of what would effectively be uncapped and very significant liabilities for late deliver. At best the risk mitigation would add significantly to delivery costs and extend the forecast completion date well beyond the earliest implementation date. This would lead to poorer outcomes for consumers than the current approach which does protect customers, for example from early provision of allowance against expenditure.

It should also be borne in mind that the Connect and Manage regime established to allow early connection of generation ahead of completion of infrastructure upgrades contributes to the value of constraint costs being incurred. Constraints would be reduced if this framework was removed, but the benefit of early connection of renewable generation would be lost.

As a network company, we are committed to the delivery of all our outputs in as timely and efficient approach as possible. The efficiency sharing factor is one mechanism that already provides an incentive in this area.

If there is to be a specific incentive here, development would need to be very carefully constructed to avoid unintended consequences that would not be in consumers' interests.

ETQ51. What other outputs should we be considering, if any?

A specific incentive to unlock the ESO-TO potential to reduce overall constraint costs with infrastructure solutions would potential benefit consumers from a reduction in whole system costs. We will be including in our business plan opportunities to tap into this area but an explicit incentive may also be valuable.

ETQ52. What are your views on the RIIO-ET1 outputs that we propose to remove?

We support the removal of the EDR mechanism and build on the benefits this has achieved by designing an environmental sustainability framework

In addition to the above questions, where relevant, please see the supplementary output specific questions below.

Supplementary output specific questions

Network Access Policy (NAP)

ETQ53. Do you agree with our proposed approach to safety?

Yes, we agree with this approach to health and safety. We will always strive to comply with all UK Health and Safety legislation covering the health, safety and wellbeing of our staff, contractors and members of the public. In addition, as part of our continuous improvement ethos, we have long, medium and short term Health and Safety strategies in place to enhance our H&S performance to go beyond mere compliance. We not only work closely with the HSE in delivering our operational activities, but also have close co-operation in improving industry H&S standards in the UK through participation in, and facilitation of, industry wide projects.

ETQ54. Do you agree with our proposal to retain the NAP as a licence obligation?

Yes, we agree the incentive should be retained as it has provided a good basis to establish the joint Scottish NAP and industry working group. It has ensured improved co-ordination in outage planning and processes between the TOs and the SO.

We support developing the incentive to identify and report on appropriate metrics to highlight the benefit to consumers of the incentive. The specific metrics could be drawn from the C17 National Performance report such as "System availability" but additional metrics reflecting the impact on constraint costs of outage co-ordination would also be valuable.

ETQ55. Do you have any views on the potential risks and benefits of introducing a single, consolidated NAP, and of expanding the NAP to cover interactions with third parties?

The incentive should be developed for RIIO-T2 to incorporate NGET providing a joint NAP for all three TOs. It is appropriate to put NGET on the same footing as the two other TOs wherever possible and a joint NAP would be important to achieve this in a critical output area.

The interaction with third parties is an evolving area due to the need for increasing communication with connected parties and defining roles and responsibilities in the NAP to provide clarity would be beneficial.

ETQ56. We welcome views on these proposals, and on any potential interactions and/ or duplications between these proposals, the NAP and the STC.

The NAP was established and developed to provide additional clarity and procedural improvement in line with existing STC which defines much of the interaction and obligations between the Scottish TOs and the GB SO. The NAP does not currently conflict with the STC for these reasons and is explicitly positioned as being subject to the provisions of the STC. Developing it as proposed will enhance the value of the NAP without conflicting with the STC

Successful delivery of large capital investment projects

ETQ57. Do you agree with our proposed approach for ensuring TOs do not benefit financially from delays in delivering large capital investment projects?

It is not accurate to portray TOs as inherently benefiting overall from delays in delivering large capital investment projects. Timely delivery will always be more efficient and economical for all parties and the costs associated with the effects of extended project delivery times is keenly felt by TOs along as would any other major project provider.

Ofgem also do not highlight that the existing efficiency incentive mechanism (TIM) that these projects are currently subject to under the RIIO framework provides a significant incentive for TOs.

Any benefit derives from the way the regulatory funding model operates whereby TOs receive allowance according to their expenditure forecast across their TOTEX allowances, has been resolved on a project by project basis in the past. It is not yet clear that there is a real problem with the existing system and why Ofgem would consider establishing an automatic mechanism, with the complexity which that is likely to bring, would produce an overall net benefit to consumers.

ETQ58. We invite views on the suitability of the milestone approach, the types of milestones or delivery criteria we should be considering and any potential challenges associated with implementing such an arrangement.

We refer to our response to the previous question, but if Ofgem decided the reputational benefits for stakeholders are sufficient to require this mechanism then adopting a milestone approach is not unreasonable.

ETQ59. Are there any alternatives which we should also consider?

Developing an annual reporting mechanism demonstrating the approach and progress of major capital project delivery would add more value for consumers concerned with the timeliness of delivery

ETQ60. We invite views on the circumstances we should consider options for minimising consumer detriment and/ or sharing consumer detriment with consumers.

There is no effective measure of overall consumer detriment or benefit at the level of detail that would be attributable to be reflective of the quality of performance of large project delivery. Bespoke reporting and assurance of project delivery is a more appropriate response and could be applied to projects above a certain value, potential £100m in line with the high value category that defines the criteria for competition.

It should be noted that extensive financial and project delivery reporting is already required of TOs which Ofgem should take into account as its RIIO-2 proposals develop.

ETQ61. We are seeking views on these two options, including ways in which we could measure and reflect consumer detriment.

Please see response to ETQ 60 above

ETQ62. Are there any alternatives not identified here which you think we should be considering?

Please see response to ETQ 60 above

Cost assessment

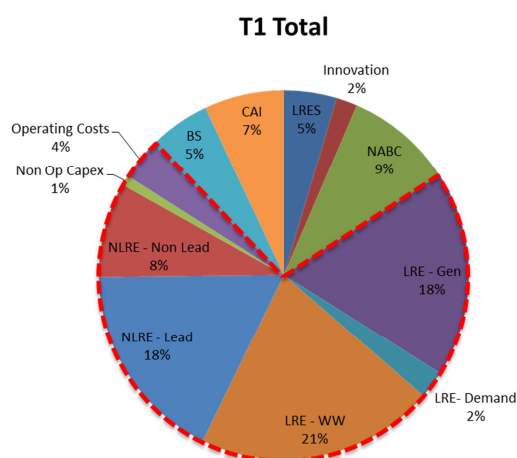
ETQ63. Do you agree with our intention to evolve the RIIO-ET1 approach for RIIO-ET2?

We fully support the principles of a RIIO regulatory mechanism as a fair and reasonable mechanism that seeks to balance expectations across customers, consumers and transmission companies. Perhaps, inevitably, as a new mechanism (in RIIO-1) there are ways that it can be improved. Fundamentally, however, a strong and properly calibrated linkage between outputs and revenues will translate to value for money investment for consumers.

The lessons learned from current performance are reflected in current industry policy deliberations and resultant consultations. These changes will form a firm foundation for natural development of RIIO-ET2 requirements. This should be treated as an evolutionary process and a flexible and prioritised approach is necessary to ensure a workable outcome for each of the key milestones set out in the consultation (Figure 6.2 refers). An example of this might be that companies provide a range of Asset Unit Costs (AUC), that they expect to deliver against, rather than an annual AUC profile for the draft BPDT and agree a development plan with Ofgem to move towards an annual monitoring regime through the RIIO-ET2 BP process.

ETQ64. Do you have any comments on appropriate cost categories, cost drivers or approaches to cost assessment?

The figure below illustrates the split of SPT totex for RIIO-ET1⁵ price control period.



A key point of note is that the decarbonisation of the UK economy means that customers are directly driving a quarter of total investment. Furthermore, the change in generation type (i.e. fossil fuels displaced by renewables (e.g. wind)) is driving a change in their geographical location and necessitating strategic reinforcement to transport power mainly from sources (north) to demand centres (e.g. cities and towns) (south). This is also compounded by the nature of these new sources of energy (e.g. intermittency) that means the electrical network has to deal with greater levels of power flow reversal (i.e. S-N). These strategic reinforcements (Wider Works) account for over a **fifth** of expenditure and together mean that almost **half** of SPT's workload is driven by customers.

The aforementioned changes to the transmission network are driven by external changes in generation and demand requirements, which we are mandated (legal and licence obligations) to

⁵ Data based on 2017/18 RRP (ie. 5-year actual costs and 3-year forecast)

accommodate. It is categorised as 'load related expenditure' in the UK. SPT as a reasonable and prudent operator acts on behalf of customers and consumers to operate, maintain and asset replace or refurbish the existing (or legacy) network to meet customer service and quality levels (e.g. for network reliability etc.) that are agreed with the industry regulator. The investment in asset renewal (replacement or refurbishment) to address asset condition risk within the network (as assets 'wear' out and/or become obsolete over time) is categorised as 'non-load related expenditure'. We consider that these two work-streams continue to encompass the most pertinent cost drivers for network investment for the foreseeable future. These work-streams are supported by other necessary support activities noted in the figure above. This also includes costs that are out-with a TO's control (Non-Activity Based Costs (NABC) e.g. Rates) – which are recognised by Ofgem – and account for almost 10% of total expenditure.

The approach to cost assessment cited in the consultation document, in the main, supports a 'tried and trusted' approach that has prevailed across multiple price controls. This type of toolkit remains necessary to address the range, scale and regional variations in activity encountered by transmission network owners in serving their customers and all UK consumers.

We support an approach that puts investment in a proper context and welcomes benchmarking where the assessment process and data is properly understood (including limitations). This should recognise (amongst other things) that investment in transmission assets within an existing heavily integrated and mature network represents a long-term commitment for all stakeholders. A central tenet that follows is that any assessment should properly recognise the time horizon – to this end we fully support a cost benefit analysis (CBA) justification for projects and programmes – to demonstrate real long-term value to consumers.

SPT's transmission capital works are primarily on a 'named scheme' (project) basis, which most appropriately reflects the bespoke nature of technical solutions and their associated costs to address expected network issues. In order to properly determine whether works are truly comparable for this purpose, it is necessary to examine the scopes of work in detail to identify the specific elements which are common. Hence, we would tend towards greater support for project by project review, underpinned by asset unit costs and disaggregated benchmarking.

The determination of robust unit costs where there are a small number of companies – of different scale – is not trivial. This is compounded by relatively low volumes of activities which are normally bespoke, leading to greater levels of variation in unit costs. There may be some opportunity for cross-sector comparisons (e.g. DNO 132kV assets), however, it would be important to recognise the differences in relevant costs (for example TOs report as uncoded, whereas DNOs report on direct cost basis) that could skew such analysis. The relationship between base unit costs and final project costs varies according to the type of project due to cost factors (e.g. new build overhead line (which could be driven by separate cost drivers (load or non-load)) requiring environmental impact assessment, route surveys, consents etc.).

We support examination of proposals in greater detail ('bottom-up' approach) as this is expected to result in higher confidence in the derivation of the costs. We believe that it is manageable for the case of electricity transmission. This type of approach would be best suited to areas where there is relative certainty over the scope of investments such as non-load and advanced stage development load related capex. A key requirement, however, is that such assessments should be transparent to ensure proper interpretation and understanding of assumptions.

In prior responses to the questions regarding whole systems approach we have advocated using a CBA framework that can identify the most efficient solution across sectors and vectors. It is important to ensure that the conclusions of such an assessment are considered alongside any cost benchmarking, which may not in itself capture the wider benefits of such expenditure. Similar considerations apply where Ofgem is assessing proposed expenditure that spans multiple price

controls. For example, an individual project that has a positive net benefit but covers RIIO-T2 and T3 may need to be excluded from the benchmarking of T2 or T3 expenditure done in isolation.

ETQ65. We invite views on the appropriateness of our proposed cost categories for RIIO-ET2.

We support Ofgem's proposals to move to a simplified structure for cost categories and welcome greater transparency between TO Business Plans and what is actually delivered in terms of output and scope of works. It should be acknowledged, however, that current proposals constitute a re-shuffle of under-lying activities. We will continue to pro-actively work with Ofgem to develop meaningful monitoring and reporting avenues to demonstrate delivery of the plan and long-term value for money for existing and future consumers. Further details are included in our response to ETQ64.

We believe that the three cost categories are appropriate but believe their titles should change. Our proposal is that 'Load related expenditure' should become 'Customer initiated expenditure' and non-load could be titled– 'asset management expenditure'. The reasoning for this is that load and non-load are not self-explanatory titles for these two cost categories and have only been used as a legacy. We don't propose to change the context of these, however, being able to use our alternatives would be more intuitive for stakeholders who are trying to understand what we are spending money on.

ETQ66. We invite views on the principles of a good cost driver and our approach to identifying suitable RIIO-ET2 cost drivers is appropriate.

We support the principles stated in the consultation document, whilst recognising that whole-system implications must be appropriately addressed or bounded for RIIO-ET2. Our response to ETQ64 affirms support for a bottom-up benchmarking approach, supported by sound engineering judgement, for electricity transmission due to the volume and nature (essentially, all high-value) of specific projects.

Ofgem and the Consumer Challenge Group have requested that a collaborative view is taken across the network operators on a common view of future scenarios. This process has identified common cost drivers across the network operators and drivers which will be interactive in different sectors, however this should not compromise a company's ability to provide its own view on the regional specific cost drivers. SPEN along with other network operators are undertaking extensive stakeholder engagement and research into these elements which will underpin parts of our load related plan, and the common view work across the network companies is a compromise position and will not at all times reflect some of the specific challenges a single network operator is planning for. This concern has also been raised by our TO User Group as we see it as particularly relevant in Scotland where the Scottish Government has a number of different policy objectives and targets from that of the UK government.

ETQ67. We welcome any early views on how we can combine the analysis in order to ensure ex ante allowances reflect efficient costs.

We welcome and support Ofgem's expectation of a bottom-up approach supported by engineering judgement. The nature and scale of investment – recognising that the vast majority of external services are competitively tendered in the global marketplace and satisfy EU Procurement Regulations – lends itself to a detailed, rather than modelled, assessment. This can be supported by further tools such as benchmarking where appropriate – where the assumptions and parameters of such additional tools are properly understood and transparent to all relevant parties.

A key element in the above area is a robust CBA to demonstrate that the proposed investments reflect the most economic and cost efficient long-term solutions. This protects both existing and future consumers from potential short-term approaches that may focus on price control horizons. Whilst there is ambition to consider alternative solutions (e.g. commercial arrangements) the transition of the

energy network to meet future demands will still require significant investment in physical assets – many of which will have very long asset lives (e.g. 50-100yrs).

Uncertainty mechanisms

General uncertainty mechanism questions

ETQ68. We would welcome views on the design and suitability of existing uncertainty mechanisms for RIIO-ET2, and whether any of these should be removed.

We believe that many of the existing mechanisms have worked well in RIIO-ET1, however, we believe there are many lessons learned, for example, in relation to SPT's Connection Volume Driver⁶. Any future mechanisms must ensure that outputs lead revenues and efficiently accommodate the customer driven changes.

A review of the Strategic Wider Works (SWW) process is required to ensure that it is fit for purpose in RIIO-T2. In RIIO-T1 there are a number of major differences in the SWW thresholds across the three TOs that should be reviewed. As projects which are likely to fall under the SWW framework, there would be value in discussing how these are treated with Ofgem in light of this review of SWW process. There has also been significant learning from the operation of the generation connections uncertainty mechanism which will require to be reviewed for RIIO-T2. In particular the operation and success of the mechanism is radically different across the TOs. Such a mechanism is required again in RIIO-T2 but the definition and calibration requires significant review.

ETQ69. Are there any additional mechanisms that we should consider across the sector and if so, how should these be designed?

An additional mechanism for demand connections is required which was not part of our RIIO- T1 licence. This may be able to be merged into generation connections to form a new connections uncertainty mechanism as the treatment of generation demand will be similar. Other elements have also been identified for which an uncertainty mechanism may be of value; these include shunt reactors, harmonic filters or other solutions which emerge as a result of our rapidly changing generation landscape. These could be mechanistic volume drivers as the cost of the technology is relatively well established and it is the additional volume which is uncertain.

Further mechanisms that should also be considered for RIIO-2 include;

- 1) Lane rentals for roadworks
- 2) Network Diversions
- 3) Potential changes to the Electricity Safety, Quality and Continuity Regulations
- 4) Changes and/or additions to levies and duties e.g. apprenticeship levy
- 5) Potential imposition of import tariffs
- 6) Changes to corporation tax
- 7) Workforce renewal
- 8) Potential changes to environmental legislation and regulations e.g. pollution, clean air zones etc.
- 9) Flood resilience
- 10) Wider legislative changes, post-Brexit and following the next General Election(s).

In terms of their design, we believe re-opener windows or "logging-up" mechanisms would be appropriate, following a similar approach to the existing RIIO-1 re-openers provided that they are clearly and tightly defined.

⁶ For details please see SPT's response to Ofgem's Transmission Mid Period Review dated 21st April 2017

A response has also been provided above and as part of our response to the cross sector questions on cyber security, physical security and whole system; all of which have uncertainty mechanism elements to them.

ETQ70. We would welcome views from respondents on the continuing relevance of these mechanisms and any changes to the way that they operate if they are to continue.

Uncertainty mechanisms are required to ensure that any areas of true uncertainty can be managed and funded appropriately. Otherwise companies would be taken on extreme risk levels, which may result in higher costs to consumers in other areas of the price control.