



SP ENERGY NETWORKS

Mr Dermot Nolan
CEO, Ofgem
9 Millbank
London
SW1P 3GE

Glasgow, 1 July 2019

Dear *Dermot*

Thank you for your letter of 4 June 2019.

We welcome the opportunity to share with you the work we have carried out to date, and which will continue until our submission in December and beyond, to ensure confidence from Ofgem in our Business Plan. We are proud of our performance under the current RIIO-T1 price control period, where we have delivered real value to consumers, and confirm our commitment to building on this track record as part of RIIO-T2.

Subject to Ofgem's final decision on various important outstanding parameters (including the allowed cost of equity), I can confirm Scottish Power Energy Networks Holdings Limited (**SPEN**) intends that the RIIO-T2 business plan it will submit to Ofgem in December 2019 (the **Business Plan**) will be accurate, financeable, robust and will represent good value for money for consumers. I can also confirm my understanding that SPEN's Board is ultimately responsible for the Business Plan.

Quality of Business Plan

As you are aware, our ability to produce a robust Business Plan depends to a material extent on timely input from Ofgem. It will also depend on Ofgem making realistic decisions on the key financeability parameters as this will ensure that we can finance the levels of investment needed to deliver on the overarching goals of RIIO-T2. As you are aware the question of financeability is predominately a question for Ofgem as to whether it has discharged its financeability duty as set out in the Electricity Act 1989 (as amended). We will continue to engage with you during the Business Planning process to ensure that you have the information you need to discharge your duties as set out in your Business Plan guidance. Similarly, while we confirm that we will submit a Business Plan with stretching efficiency targets to extract best value for our consumers, we need to also ensure that it remains deliverable.

We will be writing separately to highlight those areas of dependence between our plans and Ofgem's ongoing work on RIIO-T2, which we think Ofgem should prioritise over the coming weeks and months.

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Accuracy and quality assurance processes

Your letter requests details of the accuracy and quality assurance processes that we have put in place in relation to our Business Plan and how we will ensure Board-level oversight and acceptance.

I would like to reassure you that SPEN has committed (and will continue to commit) very significant management and financial resources to ensuring that the Business Plan is accurate and ultimately in compliance with the RIIO-T2 Business Plan Guidance, notwithstanding that the RIIO-2 Business Plan Guidance was only published in final form on 3 June 2019. As you are aware, our RIIO-T1 Business Plan was fast tracked and we aim to replicate that high quality as part of the RIIO-T2 Business Plan.

SPEN's activity in relation to ensuring that the Business Plan is accurate includes:

- the SPEN Board participating in dedicated RIIO-T2 Business Plan workshops on 23 April and 28 May 2019 and an extraordinary Board meeting on 26 June 2019 to approve the July submission of the draft Business Plan. This is in addition to the regular discussions concerning the RIIO-T2 process at Board meetings in 2018 and 2019;
- numerous meetings to discuss key aspects of the Business Plan with relevant external stakeholders including the Scottish Government on 12 June 2019, Citizens Advice Scotland on 17 June 2019 and others, as well as various meetings with SPEN's User Group members throughout the preparation of the Business Plan;
- engaging external consultants to carry out an independent review of our capital plans and to benchmark them against their data set to provide confidence that our costs are truly efficient;
- developing a holistic approach to assessing risk, adding a strategic view of business impact by using our Enterprise Risk Reporting methodology and combining this with Ofgem's existing Data Assurance Guidance (DAG) methodology to let us consider risks from a range of perspectives. We also engaged external consultants to assist with this and to provide independent assurance;
- working with our Internal Assurance Team, who have been involved from the outset, providing guidance on our approach to assurance and independent assurance on our data tables, on a sample basis;
- applying the various additional layers of sign-off aligned to those in the DAG to ensure rigorous review and accountability at the most senior level for our submission. In addition to myself as CEO, we are engaging the full Board, including our Sufficiently Independent Directors, to review, challenge, and sign-off all sections of the plan; and
- providing the information Ofgem has requested and addressing the key topics in our submission. We also are working with external consultants to review the content of our Business Plan against the recommendations and expectations set out by Ofgem through their various consultations and business guidance document.

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Ensuring Board-level oversight

We fully understand that the SPEN Board has overall responsibility for the long-term strategy and direction of the Business Plan. The Board seeks to ensure that our company continues to operate responsibly and ethically, while delivering success for consumers, stakeholders and shareholders. To that end, the SPEN Board has been fully engaged in the preparation of the Business Plan. As noted above, to date there have been two dedicated workshops with the SPEN Board focussed on RIIO-T2, in addition to an extraordinary SPEN Board meeting to approve the July draft of the Business Plan.

These workshops have been welcomed by our SPEN Board members and have been extremely effective in providing the Board the opportunity of challenging our RIIO-T2 project work stream leads. This challenge ensures that we are delivering an ambitious and efficient Business Plan, and provides confirmation to the Board that our plan is underpinned by a comprehensive assurance framework. This strong level of engagement and oversight from the SPEN Board will continue until the submission of the final Business Plan in December and going forwards.

Next Steps

We are proud of the assurance framework we have implemented and are confident that it not only meets, but exceeds, the expectations of our consumers and stakeholders – giving them trust in our plan. These assurance activities will continue until the submission of our final Business Plan in December and beyond. Please let me know if you have any questions or comments on our approach to assurance set out above.

In the meantime, we shall continue to develop our Business Plan and look forward to engaging with the Challenge Group on it. We shall also continue to engage with Ofgem positively to help develop those components of our Business Plan that are outside of our control, e.g. the Business Plan Data Tables. We have a number of concerns about the progress being made in such areas of dependency, as well as the estimated cost of equity set out in Ofgem's Sector Specific Methodology Decision – a key determinant of financeability. We will be writing separately in relation to these concerns and to make suggestions as to how they could be addressed.

I would of course be very happy to discuss any of these issues with you in person.

Yours sincerely,

FRANK MITCHELL
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