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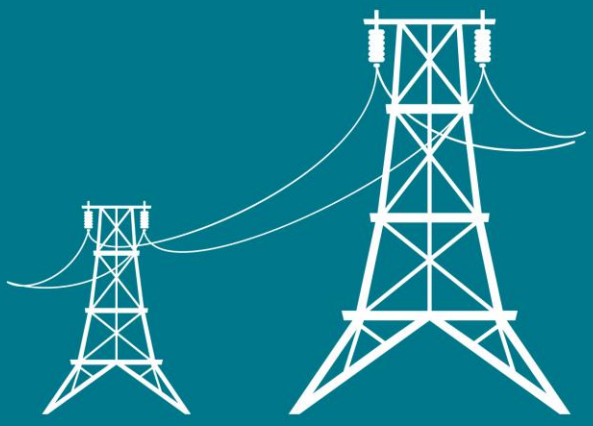


# RIIO-ET1 Annual Report **2019-20**

This report summarises the delivery and financial performance of onshore electricity transmission owner (TO) businesses under the current RIIO price control period (RIIO-ET1) in the following areas:

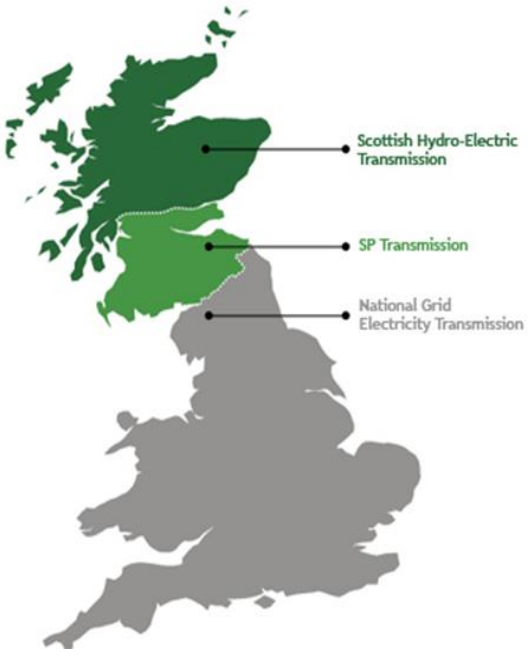
1. achievement of annual output targets and performance in 2019-20.
2. activity under the innovation funding streams in 2019-20.
3. the anticipated level of delivery against baseline outputs in response to changing needs which automatically adjust the cost allowances (known as 'volume driver' mechanisms).
4. the TO's current expectations of costs incurred against the total allowance anticipated across RIIO-ET1 and the current Rate of Regulatory Return on Equity (RoRE) range.

## Key messages

**Annual outputs**: Based on current information, all TOs have met or exceeded the annual targets or are on schedule to deliver equivalent outputs to those agreed at the outset of RIIO-T1. An exception is SHET who will be penalised for not meeting their agreed annual target for reducing leakage of SF6 gas.
**Innovation:** TO's continue to identify improvements and efficiencies in the delivery of the T1 plan.
**Volume drivers**:

- NGET is forecasting to deliver less than anticipated in the baseline (with a corresponding reduction in allowances).
- SPT is expecting to fall short against its baseline output of 'sole-use' connection capacity.
- SHET is forecasting to exceed both its baseline connection capacity outputs.

**T1 performance:** All TOs currently anticipate a totex underspend against the cost allowances (adjusted with volume drivers) across RIIO-ET1.
**RoRE**: Ofgem have calculated the RoRE range to be between 9.4% and 11.3%.




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

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

To set our price controls we use the RIIO (Revenue = Incentives + Innovation + Outputs) framework. The current price control lasts for a period of 8 years until April 2021. All financial values in this report are stated in the 2019-20 price base.

# 1. Annual Output Performance

As part of RIIO-ET1, we set a range of outputs which TOs have committed to deliver. Annual output targets apply in three areas: (1) reliability of service; (2) stakeholder and customer satisfaction; and (3) environmental impact. If TOs meet their annual output targets they receive incentive payments. Where TOs fail to achieve their annual output targets they incur financial penalties.

A further three outputs also apply under RIIO-ET1. They are: (1) adherence to legislative requirements (safety); (2) implementing and maintaining a network access policy (availability); and (3) responding to connection requests in accordance with licence timescales (timely connections). These additional 3 outputs do not have annual performance targets. Where TOs fail to meet existing licence or legislative requirements they may be subject to enforcement action and financial penalty.

The TO's performance for each output area is summarised below.

Further summary information can be found in the data file accompanying this report.

**Reliability**

All TOs have reported strong levels of network reliability in 2019-20 and outperformance against their annual targets to minimise how much electricity is lost to the distribution networks and other customers (Energy Not Supplied or ENS) because of failures to the assets on the transmission network. The strong outperformance represents an overall level of network reliability across all three TOs of 99.99997%.

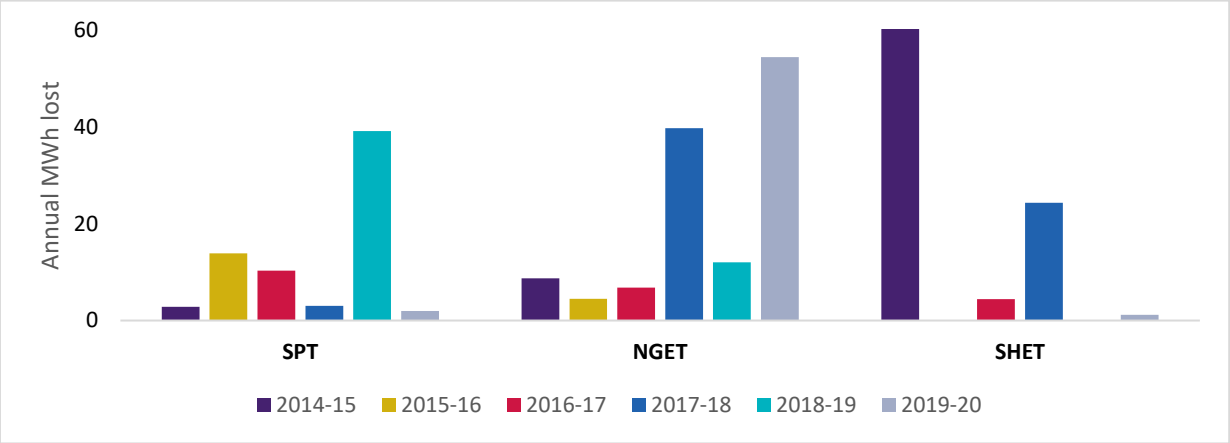
In terms of the annual values of megawatt hours (MWh) lost on the transmission system:

- SPT's reported volume for 2019-20 is below the annual average level for RIIO-ET1 to date (16 MWh). SPT explained the decrease in annual volumes between 2018-19 and 2019-20 is the result of a reduced number of incentivised events and no significant weather related incidents in the past reporting year.
- SHET reported very low volumes in 2019-20 (1.15 MWh) against one incentivised event[1]. This volume is again below the average level for RIIO-ET1 to date (25 MWh).

[1] Some events that cause electricity not to be supplied to a customer may be excluded from the estimation of the incentive. For example, if an event duration is 3 minutes or less the ENS is not included in the incentivised ENS figure.

- NGET's annual volume of 54 MWh in 2019-20 is above the average level for RIIO-ET1 to date (34 MWh), but remains a strong outperformance compared to the target (c83%). NGET explained the increase in annual volumes between 2018-19 and 2019-20 is the result of an increased number of incentivised events in the past reporting year.

**Figure 1: Annual MWh lost to incentivised events**




Note: SHET report a value of 1.2MWh for annual MWh lost in 2015-16 and zero in 2018-19 and 2019-20.

**Stakeholder and customer satisfaction**

This is assessed against the quality of network companies' engagement with stakeholders and customers. Performance in 2019-20 has been positive overall with improvements across the majority of engagement areas in comparison with last year.

Both SPT and SHET received an improved rating from the Ofgem-led panel assessment this year, achieving a score above the annual performance target. SPT recorded a strong score in the stakeholder survey, significantly better than the annual benchmark. SPT's Key Performance Indicator (KPI) score moved upwards to 77, higher than the baseline of 69. SHET report an improvement in survey (8.2 to 8.4) and no change in KPI scores relative to last year; exceeding the annual survey benchmark but continuing to fall short of the annual performance target in the KPI area. NGET received an improved rating from the Ofgem-led panel assessment this year, achieving a score above the annual performance target, and increased scores in both survey metrics from 2018-19 to exceed annual performance targets.

**Table 1: TO engagement summary (2016-2020)**

| | 16/17 | 17/18 | 18/19 | 19/20 | Baseline |
|---|---|---|---|---|---|
| **Stakeholder Survey Scores** | | | | | |
| SPT | 7.9 | 8.3 | 8.5 | 8.4 | 7.4/10 |
| SHET | 8.7 | 8.0 | 8.2 | 8.4 | |
| NGET | 7.7 | 7.9 | 7.9 | 8.6 | |
| **KPI Scores** | | | | | |
| SPT | 77 | 78 | 70.7 | 77.0 | 69/100 |
| SHET | 69 | 76 | 87.0 | 87.0 | 89/100 |
| **Ofgem Panel** | | | | | |
| SPT | 6.3 | 6.4 | 4.9 | 5.9 | 5/10 |
| SHET | 5.4 | 3.3 | 4.1 | 6.6 | |
| NGET | 7.0 | 5.1 | 5.5 | 5.9 | |
| **Customer Survey Scores (NGET only)** | | | | | |
| NGET | 7.41 | 7.74 | 7.92 | 8.21 | 6.9/10 |

**Environment**

SPT and NGET report having met their sulphur hexafluoride emissions targets for 2019-20. The overall level of leakage has, however, increased by 3% relative to the total emission rate reported in 2018-19 (13,404kg against 13,000kg).

- SPT report a strong reduction in leakage rate relative to last year (530kg against 696kg) and are currently 40% below the annual limit (12% last year) – see figure 2. SPT noted that performance will continue to be adversely impacted by leakage from an older site, designed with a greater leakage rate than modern equipment.

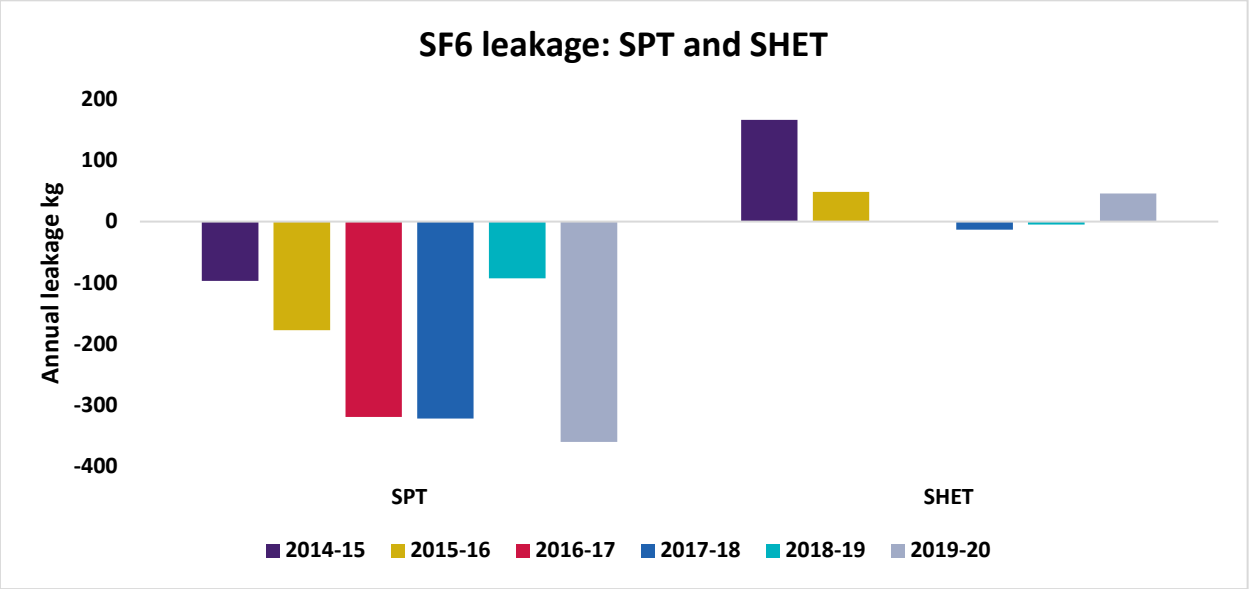
- SHET fell short of the annual target for the fourth time in RIIO-ET1 by 46kg (12%) for 2019-20 (61kg increase against the 2018-19 annual leakage level). This will result in a financial penalty. SHET explained that the rate is above the pre-agreed annual limit due to leakages experienced at one site, including an accidental leakage by a contractor – see figure 2.

- NGET report a small rise in annual leakage levels (1.4% increase against 2018-19[2]) and recorded its worst annual leakage levels to date (12,441kg), but remain below its 2019-20 annual target – see figure 3. NGET explained that leakage increased as sites took precautions against Covid travel restrictions, including topping up equipment earlier than normal, which increases pressure and therefore the rate of leakage.

[2] NGET reports an increase in the actual leakage rate provided in last year's data submission (11,934kg to 12,270kg). The year on year movement against the restated 2018/19 level is 171kg.

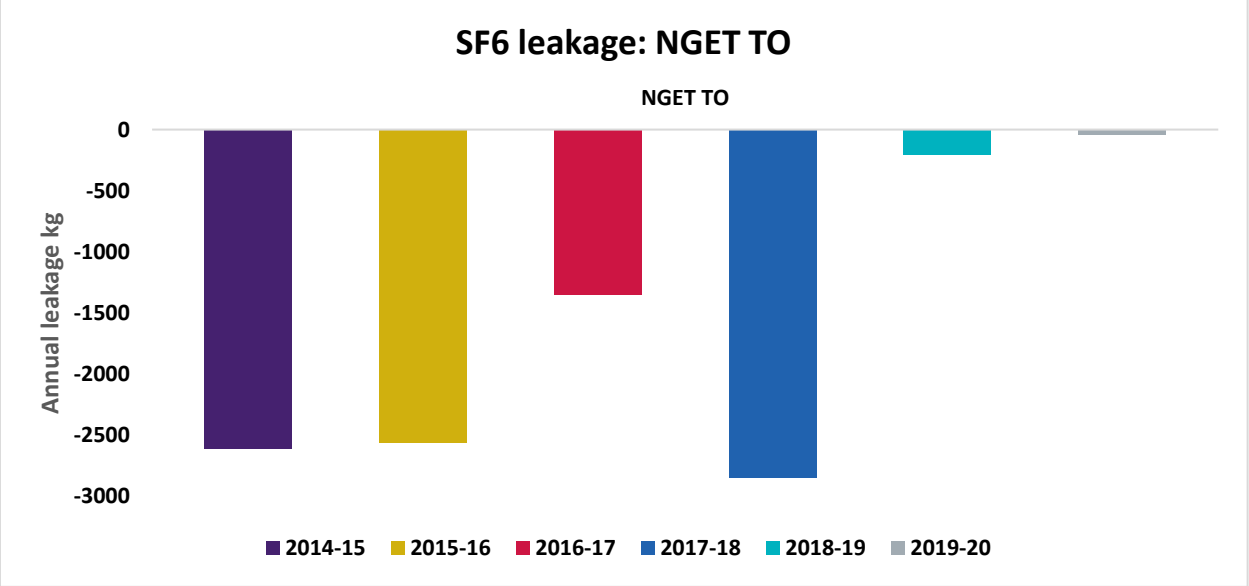
NGET commenced work on the first major visual amenity project approved last year. This will remove 22 pylons from the landscape in the Dorset area and replace them with an underground cable to enhance the visual amenity of this protected landscape.

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




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

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




Note: NGET's annual leakage level relative to target in 2019-20 is 45kg below the annual target. The updated leakage level in 2018-19 is 206kg below the annual target.

### Safety

All TOs continue to meet all safety legislation requirements. In 2019-20 there was a continuation of very low rates under Incident or Injury Frequency metrics for all TOs.

**Availability**

All TOs have complied with the Network Access Policy (NAP) requirements for 2019-20. In March 2019, Ofgem approved a new NAP to reflect the legal separation of the TO and System Operator functions of National Grid.[3] SHET and SPT have a separate common NAP covering Scotland.[4]

**Timely connections**

This year the TOs made all connections offers to customers within the licence timescales. The number of requests for connection was broadly consistent with the levels reported last year. For NGET, the number of requests for connection offers in 2019/20, all 176 requests were met within the 3 months. SHET sent 81 offers to the System Operator (against 81 in 2018-19) and SPT 100 offers (slightly reduced from 104 in 2018-19).

**Network Output Measures (NOMs)**

NOMs are a further output target. One measure - the Network Replacement Output – has allowances which are directly associated with the delivery of specified targets. Based on current information, we note that each TO expects to meet its targets.

# 2. Innovation

As part of RIIO, Ofgem introduced two new funding mechanisms for network innovation: the Network Innovation Allowance (NIA) and the Network Innovation Competition (NIC). The purpose of NIA funding is to encourage TOs to identify, develop and test new ways of delivering electricity transmission. The NIC is an annual opportunity for electricity network companies to compete for funding for the development and demonstration of new technologies, operating and commercial arrangements.

This year all TOs have registered additional projects for funding under the NIA funding streams. In 2019-20 NGET spent £7.6m across 59 eligible NIA projects. SPT spent £1.7m against its portfolio of 19 NIA projects and SHET spent £0.6m progressing 10 NIA projects.

Using funding from the NIC:

[3] https://www.ofgem.gov.uk/publications-and-updates/decision-proposed-amendments-national-grid-electricity-transmission-s-network-access-policy
[4] https://www.ofgem.gov.uk/publications-and-updates/authority-decision-approve-network-access-policy-nap

- NGET is converting an existing 400kV substation into a high voltage innovation centre.
- SPT is developing digital substation applications (Future Intelligent Transmission Network Substation Solutions) and, in collaboration with the Electricity System Operator, is deploying hybrid synchronous compensators (Project Phoenix), and

- SHET is progressing development of a Multi-Terminal Test Environment (MTTE) for High Voltage Direct Current schemes and a New Electricity Suite of Transmission Structures (NeSTS).

Information on funding decisions under the NIC can be found on our website.[5]

A third source of innovation funding under the T1 framework is the Innovation Roll-out Mechanism (IRM). The purpose of the IRM is to provide additional funding to licensees to facilitate the roll-out of innovation that meets certain requirements into business-as-usual. There are no further windows for TOs to apply for Innovation Roll Out Mechanism (IRM) funding in RIIO-ET1.

## 3. Volume driver mechanisms

Volume driver mechanisms link adjustments of a network company's baseline cost allowance to its actual volume of network services provided over RIIO-ET1. The mechanisms recognise the uncertainty associated with changes driven by factors that are beyond the control of TOs.

For NGET, the required output across all three customer-led mechanisms (new generation connections, new demand connections and works to strengthen network boundaries) is significantly lower than its baseline level. This difference is driven by changing customers' needs reducing the number and size of connections with a corresponding reduction in allowances.

By the end of financial year 2021, NGET anticipate delivering:

[5] https://www.ofgem.gov.uk/network-regulation-riio-model/current-network-price-controls-riio-1/network-innovation/electricity-network-innovation-competition

- 12.6 gigawatt (GW) of new generation capacity against a baseline of 33.7 GW.
- 39 Supergrid Transformers compared to a baseline delivery target of 72 units.
- 12.4 GW of additional boundary transfer capability against a baseline of 23 GW.

In Scotland there are two customer-led volume driver mechanisms which apply to SHET and SPT. Both mechanisms apply only to new generation connections. The first is for providing network capacity to connect multiple generators ('shared use') and is measured by the increase in transfer capability in megavolt amperes (MVA). The second is the connection of single generators ('sole use') which is measured by the amount of new infrastructure capacity associated with the generation connection, measured in megawatts (MW).

SPT currently anticipate connecting 1,950MW of new sole use generation capacity over RIIO-ET1, the portfolio now includes the connection of Neart Na Goithe (450MW) offshore windfarm in RIIO-T1, which is under construction. The expected portfolio is 78% of the 'sole use' baseline output level of 2,503MW (up from an 1,620MW forecast reported last year) – and a clawback of allowance is expected to take place in the final year of RIIO-T1. SPT explain that low rate of connection in RIIO-T1 is the direct result of the impact of changes to subsidy arrangements for renewable generation and planning delays affecting customers in the renewables sector. SPT anticipates significant development and construction of windfarms for delivery in RIIO-T2.

In the case of 'shared use', SPT expect to deliver a significant increase in additional network capacity over and above its 1,073MVA baseline level, resulting in an overall increase in network capacity of 3,561 MVA by the end of RIIO-ET1 (an increase from 3,482MVA forecast reported last year).

SHET anticipate that it will deliver above baseline levels for RIIO-ET and expect to exceed the baseline output target for T1 for both sole use (1,168MW) and shared use (1,006MVA) infrastructure by the end of 2019-20. The current eight year forecast are 230MW (c.20%) above the baseline threshold of 'sole use' capacity (down from a forecast excess of 381MW reported last year). Infrastructure 'shared use' capacity of 1,500MVA (c.150%) above the 1,006MVA baseline (down from a forecast excess capacity of 3,160MVA reported last year).

SHET explain that the reductions in the level of infrastructure output delivery anticipated across the T1 period relative to last year's forecast is due to certain schemes moving their delivery date beyond 31 March 2021 and into the first two years of RIIO-T2.

# 4. Eight year totex performance drivers

All TOs currently anticipate a totex underspend against cost allowances adjusted by volume drivers across RIIO-ET1 (ranging from 6% to 22%). The combined value of total expenditure for the TOs across RIIO-ET1 is currently forecast to be close to £16 billion (a reduction of almost £1bn relative to last year's forecast)[6] and a cumulative forecast underspend of 17% against allowance as highlighted in table 2 below (against an anticipated outperformance of 16% reported in 2018-19).

**Table 2: TO view of totex expenditure vs adjusted allowed totex (£m)**

| *£m, 2019-20 prices* | *Current RIIO-ET1 forecast (pre-true up position in respect of excluded services)* | | | |
|---|---|---|---|---|
| | Allowance | Expenditure | Difference | |
| | **£m** | **£m** | **£m** | **%** |
| **NGET** (includes impact of the agreed 'voluntary deferral' of allowances and excludes the impact of liquidated damages on allowances) | 12,920[7] | 10,082 | -2,838 | -22% |
| **SPT** (includes SPT's estimate of the end-of-period clawback related to the sole-use mechanism) | 2,467 | 2,323 | -143 | -6% |
| **SHET** (includes impact of the agreed 'hand back')[8] | 3,633 | 3,360 | -273 | -8% |
| **Total** | **19,020** | **15,765** | **-3,255** | **-17%** |

The adjusted allowances reflect the TOs' current estimates, except for SHET where we have included the impact of the agreed 'hand back' of allowance. The accompanying datafile separately illustrates the impact of any previously agreed allowance adjustments as well as the current TO forecast of the end-of-period 'true up' for excluded services.

- SPT's forecast underspend (£143m or 6%) is driven by savings in both load related and non-load related spend outweighing the anticipated overspend in the other cost categories. This is an increase in the T1 forecast underspend position reported last year (£78m).

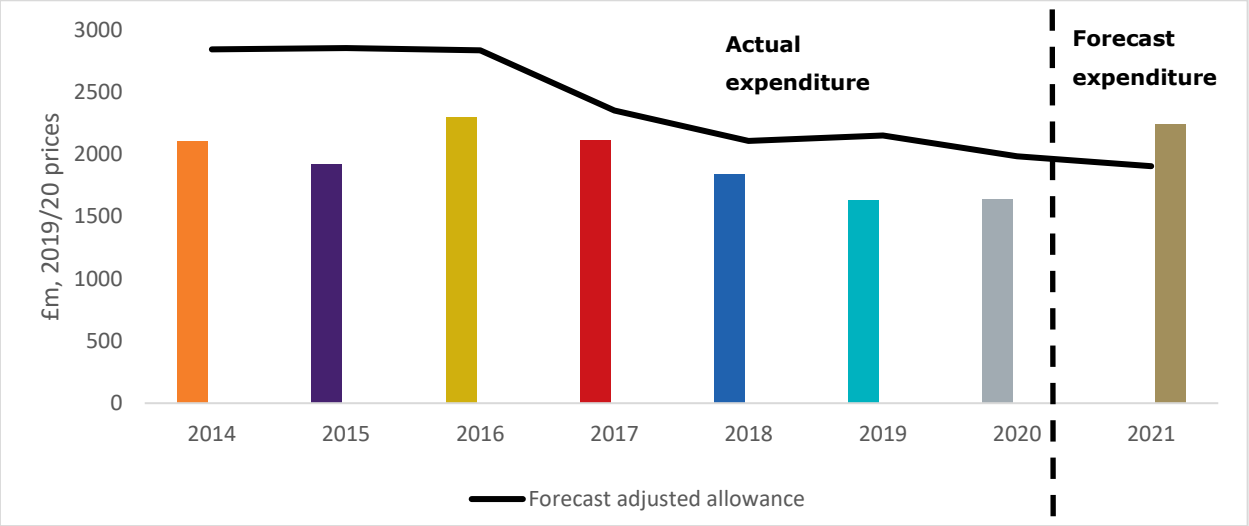
[6] This represents the cumulative forecast totex value for the RIIO-T1 period reported in the respective reporting packs and available from each TOs website. Further adjustments subsequently made by each TO are detailed in the text below and listed in the data file published alongside this report.
[7] Including the impact of liquidated damages receipts relating to the delayed Western HVDC link (£87m in 2019-20 prices) the forecast outperformance is reduced to £2.75bn and is consistent in proportion of the adjusted allowances against the forecast position reported last year (21%).
[8] SHET's public report anticipates spend will be £337m less than allowances excluding any close out adjustments for RIIO-T1. Post close out, SHET's current assumption is that spend will be 3% less than allowance (c.£118m).

- SHET's forecast underspend (£273m or 8%) is driven by savings in load spend which outweighs the expected overspend in non-load related expenditure. This is a reduction against the anticipated 2018-19 outperformance (£309m[9])

- NGET TO's forecast underspend (2.84bn or 22%) is driven by savings across load and non-load spend across RIIO-ET1. The underspend has marginally decreased in absolute amount against the forecast position reported last year (£2.87bn) but increased in proportion of the adjusted allowances against the forecast position reported last year (21%). The change is a result of a larger reduction in allowance relative to the reduction in expenditure.

The overall position of the TO's current expected costs incurred against the total allowance anticipated across RIIO-ET1 is illustrated in Figure 4 below.

**Figure 4: Actual and forecast expenditure vs forecast allowance: All TOs**




Network companies are incentivised to outperform their RIIO-ET1 totex allowance using the totex incentive mechanism (TIM). The TIM means that any underspend of the totex allowance is shared between the TO and its customers. The efficiency sharing rate is symmetrical for any overspends: the TO is exposed to any shortfall and the remainder is passed onto customers by increasing allowances to be recovered through network charges.

[9] After removing SHET's expenditure forecast incurred on projects expected to deliver an output in timescales beyond 2023 – see last year's data file for more detail.

The overall position of the TOs costs incurred against adjusted cost allowances to date for RIIO ET1 (1 April 2014 to 31 March 2020) is an underspend of £3.6bn (an increase in the overall value reported in 2018-19, £3.4bn). Through the TIM, customers will receive £1.9bn of the overall underspend; the TOs will retain the remaining £1.7bn.

**Load related performance (capex)**

The forecast overall spend across RIIO-ET1 for this category is significantly under allowance (£1.56bn or 18%) and has increased since 2018-19 (when it was forecast at £1.65bn).

The main drivers behind the current forecast position include: TOs finding ways to strengthen their networks at a lower cost than previously estimated; efficiencies in delivery; reductions in the scope of works and construction periods through 'lean' engineering design, and optimisation of the investment plan to reflect projects being delayed or deferred.

- SPT's forecast underspend (£159m or 11%), driven by savings through their 'in-house' design and capital delivery management approach. The performance takes account of the estimated value of the end-of period clawback for falling short against its baseline output of 'sole-use' connection capacity. SPT's performance across RIIO-ET1 under this cost category has increased relative to last year's forecast (£60m or 5%) due to a reduction in expenditure and an increase in the level of allowance.

- SHET's forecast underspend (£409m including the impact of the 'hand back', or 13%) is primarily driven by savings in the delivery management of very large capital projects (eg. Caithness Moray project).[10] The anticipated underspend is an increase on last year's performance across RIIO-ET1 (underspend of £371m). SHET explain that the increase is driven by changes in the contracted generation background; specifically the re-profiling of schemes currently expected to deliver an output in the first two years of RIIO-ET2[11] and the removal of Western Isles and Orkney from SHET's best view.[12]

[10] Removing the impact of SHET's 'hand back' increases the current forecast LR underspend to £473m (15%).
[11] SHET's generation connection mechanism contains an automatic trigger to adjust allowances for the first two years after RIIO-ET1. The overall forecast is lower as a result of three schemes moving out of the T1 eight-year period and becoming crossover schemes, which means they are no longer counted against the T1 baseline.
[12] The latest forecast also includes the Shetland scheme. Allowances still need to be agreed via the SWW process before this project commences to the construction phase. In the absence of final agreed allowances, SHET assume that allowance equals the current expenditure forecast (net zero position).

- NGET currently anticipate an underspend of £1bn or 23%[13]. The difference between expenditure and allowance has reduced by close to £200m compared to last year's T1 forecast (£1.2bn or 26%). The change in performance is primarily driven by allowance adjustments caused by the delay and cancellation of 'wider works' network reinforcement projects highlighted in the latest Network Options Assessment (NOA) by the System Operator. The impact of NOA changes have been partially offset by cost reductions achieved through scope changes, cheaper delivery methods and later delivery (eg. £37m associated with Shunt Reactor projects having been delayed into RIIO-T2).

  NGET separately identify £330m of specific project efficiencies in the generation portfolio (against the anticipated level of £271m reported in 2018-19) and a further £217m of efficiency savings in the demand portfolio (up from £145m identified in 2018-19. Additionally, NGET provides specific examples totalling £251m of efficiency in the 'wider works' portfolio (an increase against £12m identified in 2018-19) including estimated savings of £60m attributable to the use of power flow control device technology ('Smartvalve'[14]). This saving arises from schemes using the new technology to deliver boundary capacity increases compared to traditional delivery methods. The cumulative impact on NGET's allowance forecast across RIIO-ET1 has seen a reduction of almost 10% from last year's forecast (£4.7bn to £4.3bn) and a reduction of 7% in expenditure (£3.5bn to £3.3bn).

**Non-load related performance (capex)**

The TOs continue to anticipate achieving different levels of performance across RIIO-ET1 under this category.

NGET and SPT anticipate expenditure on non-load activities to be lower across the price control period than their forecast allowance in 2019-20. For SHET, the opposite is true: it is currently forecasting to spend above expected allowance across RIIO-ET1.

In the case of NGET, the current difference between anticipated expenditure and allowance is £2.2bn or 35%), an increase of almost £200m compared to last year's T1 forecast (£2bn

[13] Removing the impact of the NGET's voluntary deferral increases the forecast LR underspend to £1.2bn (26%).
[14] Five schemes to install these devices are being delivered in Northern England as recommended in the NOA process (three of which are planned to commission during RIIO-T1), replacing the need for at least three more expensive investments (Eg. Mersey Ring Uprating).

or 32%). The expected performance position for both SPT (underspend) and SHET (overspend) is comparable to the forecast positions reported last year.

The overall expectation is that the cumulative spend by TOs will be under the RIIO-ET1 allowance (almost £2.2bn or 29%). This is a small increase on the previous forecast position (£2bn) and is primarily the result of the reduction in expenditure anticipated by NGET. Drivers behind the increased underspend include changes in the timing, working practices and internal processes used to maintain and replace existing assets.

- SPT's forecast outperformance (£78m or 9%) is less than last year's forecast position (£100m). The underspend against allowance is driven by the change to SPT's working practices and cost efficiencies achieved through its project capital delivery. This altered the timing of activity; SPT brought forward replacement of overhead lines, and re-profiled replacement of transformers and switchgear in early T1 and ramped up investment on flood mitigation at the end of RIIO-T1. The revised forecast also includes an update to reflect prioritisation (eg. outage availability across the network) and early development expenditure associated with a range of RIIO-T2 lead and non-lead schemes.

- SHET's forecast overspend (£116m or 39%) is more than forecast last year (£93m). The anticipated overspend is primarily driven by changes in the non-load programme and movements in capex costs. There has been a modest reduction in the overall forecast for transformer costs (currently £26m under allowance) due to improved and revised condition assessment driving revisions to SHET's plan, and a number of projects have been deferred. However, this is offset by increased spend on several overhead lines schemes where asset condition has been found to be worse than anticipated when RIIO-ET1 was set (eg. the replacement of towers that were not identified as in need of replacement in the original business plan) and spend on the replacement of reactor units which suffered early life failures (forecast spend is currently £18m), where no allowance was set in RIIO-ET1.

- NGET's forecast underspend (£2.2bn or 35% ) is primarily driven by cost savings across the non-load portfolio across RIIO-ET1, which has decreased spend relative to last year's position (a reduction of more than £200m) with minimal movement reported in the level of forecast allowance. The expenditure reduction is associated with:

- a more targeted asset replacement approach (eg. NGET estimate the approach has resulted in cost savings of £160m over the RIIO-T1 period for switchgear bay activity and £140m for on overhead line conductor replacements over the RIIO-T1 period),
- customer-related delays, revised understanding of asset health and changes to network use has extended the life of some assets, the deferral of work no longer considered to be required to be completed during RIIO-ET1 (eg. a 5-year life extension for all transformers has meant that 41 transformers have been replanned out of the RIIO-T1 period, providing a saving of approximately £220m over the RIIO-T1 period), and
- reductions in the scope of works (eg. new intervention techniques and development of new contracting and purchasing strategies).

The effects and level of TOs' efficiencies and cost savings are difficult to independently verify. Based on the information submitted by NGET we understand that the overall difference between forecast cost and allowance anticipated by NGET is the result of a revised understanding of asset condition (eg. transformers not deteriorating as fast as initially predicted), the extension of asset lives (eg. reduces need for intervention and cost), a more targeted asset replacement approach (eg. reduced delivery scope and time for switchgear replacement) and new intervention techniques and innovation to deliver efficiencies. The cumulative impact on NGET's allowance forecast across RIIO-ET1 has seen a reduction of almost £2bn from last year's forecast.

**Non-operational cost performance (capex)**

The overall position on non-operational capital expenditure is largely unchanged from last year. All TOs are anticipating a significant overspend against allowance; £218m is currently forecast. The position has increased slightly relative to the 2018-19 forecast (£192m) and reflects an increase in the costs of ongoing IT transformation projects and recent cyber improvements to meet new security challenges.

**Controllable operating cost performance (opex)**

Overall, TOs are forecasting to overspend allowances in this cost category by £243m (9%) over RIIO-ET1. This is comparable to the 2018-19 forecast (£247m or 9%). Similar to last year, the forecast position is attributable to overspends by NGET and SPT (whose respective overspends are £158m and £87m). SHET currently anticipates its spend to be broadly in line with the allowance for RIIO-ET1 (forecasting a £2m underspend).

Reasons for the forecast overspend (applicable to SPT and NGET) include increases in ongoing IT program costs, costs incurred in restructuring programmes and higher business support costs as a consequence of the TO business growing in size relative to other business areas.

**Customer bill impact**

Our Tariff methodology provides an estimate of the overall cost of domestic energy bills. This includes an estimate of the proportion of the overall cost of energy which is attributable electricity transmission costs. The methodology uses an average electricity demand applied uniformly across all regions and over time.

Our latest bill assessment using this methodology estimates that the average GB customer in 2012-21 will pay £37.3 per annum in real 2019-20 price terms for electricity transmission costs. Charges differ considerably depending on the region in which a domestic consumer resides, ranging from £16.3 in North Scotland to £44.3 in South East England.

# 5. Rate of Regulatory Return on Equity (RoRE)

RoRE is made up of several components:

1. Allowed Equity Return – the allowed equity return is the return on equity that a company would earn if their expenditure and allowance matched and there were no other incentives.
2. Operational performance (totex) - this compares the totex allowance to actual totex expenditure and any underspend or overspend is then shared between the company and consumer through the totex incentive mechanism.
3. Operational performance (other)[15] – this accounts for TO's overall incentive performance.

Putting these three component parts together produces operational RoRE. Financing and tax performance is finally added to produce total RoRE.

We have calculated the total RoRE (with financing and tax) based on notional gearing to be between 9.4% and 11.3% across the different TOs. This is based on the value of TOs' latest forecast performance at the end of the eight-year period. A summary of our assessment of the TOs' RoRE performance is shown in the figure 5 (comparing this year to the previous two years) and table 3 on the RoRE based on notional gearing for RIIO-ET1 period.

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

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

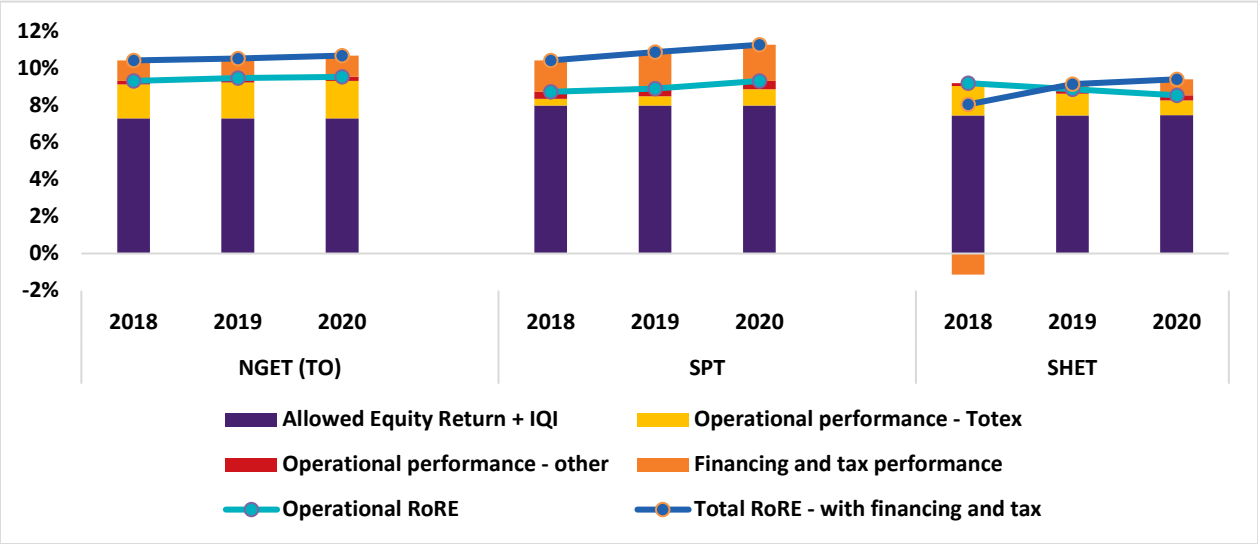



**Table 3: RoRE based on Notional Gearing – RIIO-ET1 period (2019-20 forecast)[16]**

| | NGET TO 2019-20 | SPT TO 2019-20 | SHET TO 2019-20 |
|---|---|---|---|
| RIIO-ET1 operational RoRE | 9.5% | 9.3% | 8.5% |
| Financing and tax performance | 1.2% | 2.0% | 0.9% |
| **Total RoRE** | **10.7%** | **11.3%** | **9.4%** |

Accompanying this report is a regulatory financial performance annex that sets out our assessment of RIIO-1 network companies' regulatory financial performance during RIIO-ET1. Our assessment is based on information the companies have provided under the regulatory financial performance reporting (RFPR) process.

This performance summary highlights the key performance results for the sector in the period up to 31 March 2020 and the full impacts of the Covid-19 pandemic were yet to be experienced. We do however acknowledge the collaborative arrangements that were put in place from March 2020 across all the energy networks to tackle the pandemic. These arrangements helped to maintain security of supply and high levels of system reliability, deliver essential services to consumers, while also ensuring safety for all.

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

[16] The RoRE calculation includes adjustments to allowances that reflect the company expectation of the 'true-up' process at the end of the RIIO-ET1 period. For SHET the calculation does not include the impact of the 'hand back' or TIRG. We note that the outperformance anticipated by SHET (£118m or 3%) is consistent with the basis of the 8 year weighted average operational RoRE value contained within their public report (8.5%)