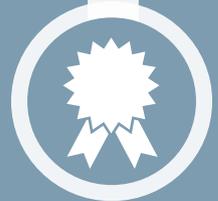


ofgem

Making a positive difference
for energy consumers



Supplement to the
RIIO-ET1
Annual Report
2015-16

Contents

Customer	4
Electricity Transmission Owners	4
Outputs	4
Totex performance	4
NOMs	4
Output performance in a glance	5
Monetary performance, revenue, return and innovations in a glance	6
Output performance in detail	7
Monetary performance in detail	9



RIIO-ET1 is the first price control that utilises the RIIO (Revenue = Incentives + Innovation + Outputs) model. There are three onshore providers of electricity transmission services (transmission owners, or TOs). We set out the details of our allowances and the outputs that the companies are committed to delivering in our Final Proposals publication in 2012.

The price control began on 1 April 2013 and runs to 31 March 2021. Annually we publish our report on the TOs' actual performance, against their output commitments and allowances. This supplement summarises each TOs performance for the third year of RIIO-ET1 (2015-16) and supports the annual report.

Under the RIIO model, TOs are required to deliver specific outputs as part of the price control arrangements and are incentivised to look continually for new ways to innovate and deliver

the outputs at a lower cost than the allowances, benefiting both the companies and their customers. Each company is currently forecasting to outperform the cost allowances. The cumulative forecast under-spend is £1.9 billion (10%) over the eight-year period.

The companies retain approximately 50% of the incentive earned and are given an allowance for tax due on that incentive. Customers are expected to benefit from the remainder through a reduction in the expected transmission component of an average annual consumer's bill.

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Customer bill

All electricity customers pay a bill to their energy suppliers, and one element of this is the electricity transmission network cost. The graphics on page 5 and 7 represent what the TOs deliver for customers. We estimate that the average GB customer paid £32 (nominal) per annum in 2015-16 to cover electricity transmission network costs. This is estimated to rise to £38 (nominal) per annum in 2017-18. The main driver for higher bills are the investments in both load related (reinforcement) and non load related (replacement) of the Transmission system.

Electricity Transmission Owners

The TOs are responsible for operating, maintaining and extending the electricity transmission network. We specify in their licences their allowed revenue they can earn depending on their performance against preset targets. The RIIO model also incentivises good performance and penalises companies for poor performance. TOs have the opportunity to exceed the expected return. This is summarised in the graphic on page 9.

Outputs

All TOs continue to anticipate that they will meet or exceed their output commitments across the price control set against six output categories, namely: safety; reliability; availability; customer satisfaction; connections and environmental.

To date, there have been limited instances of underperformance in the output areas of connections and environmental emissions which have resulted in financial penalties being levied. The dominant trend however has been the successful achievement of annual outputs. So far, the TOs have earned a net incentive reward of £60m for exceeding targets on specified output categories during the first three years of the price control.

Totex performance

In 2015-16 all TOs spent less than their allowances. All of the TOs are expecting to outperform their volume adjusted allowances (including Strategic Wider Works) over the entirety of RIIO-T1 by between 5 – 12%. Due to the revenue adjustment mechanisms within the price control, a proportion of these savings will be shared with consumers.

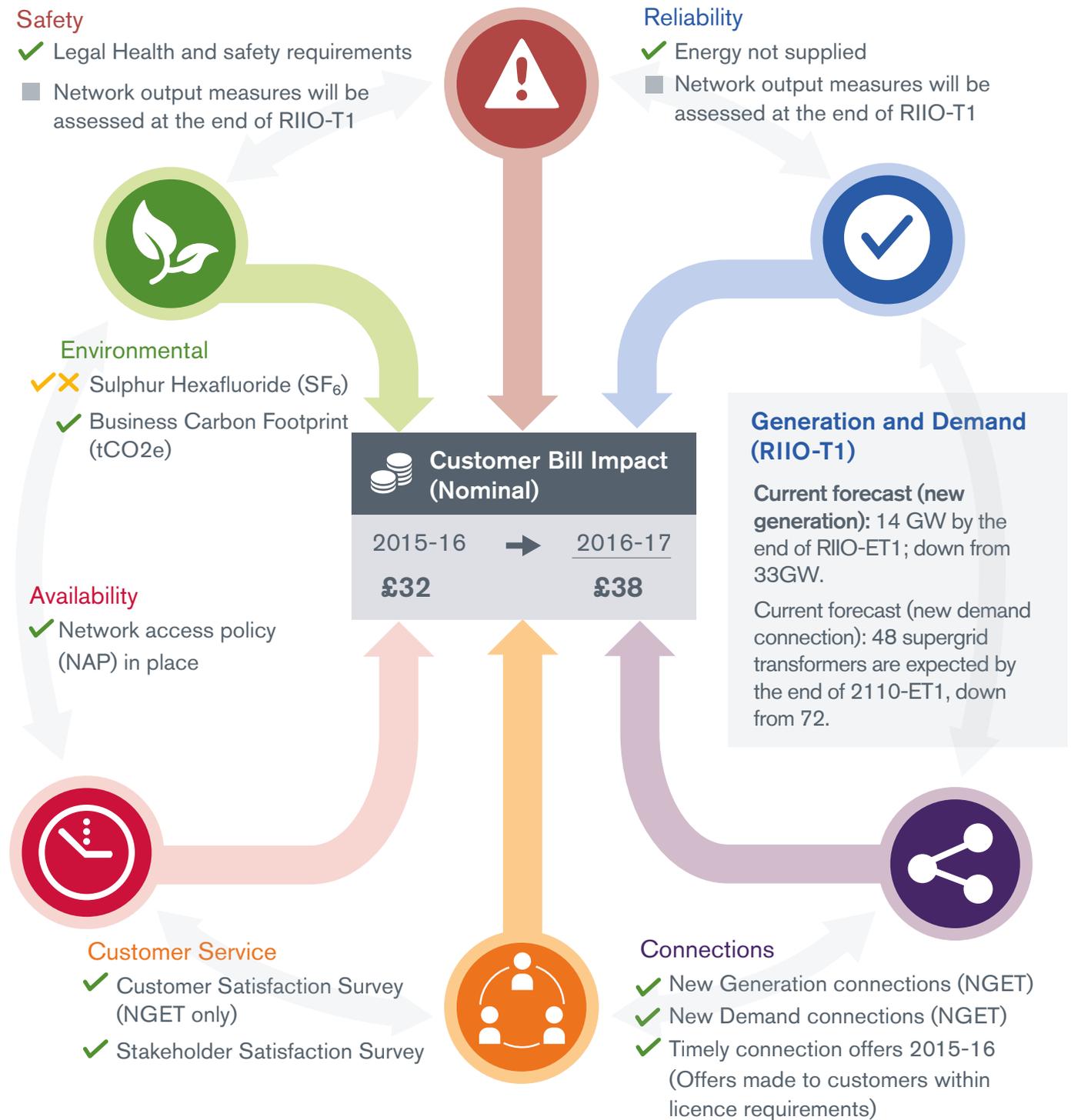
NOMs

The Network Output Measures provide measure to monitor and assess TOs' asset renewal performance over the longer-term. TOs have allowances totalling approximately £6.5bn over RIIO-T1 to deliver their Network Replacement Outputs (NOMs targets).

The NOMs targets apply at the end of the price control. If by that time a TO has delivered above or below its NOMs targets then it will receive a revenue reward or penalty in the next price control period.

Electricity Transmission Owners

Output performance in a glance: 2015-16



Key

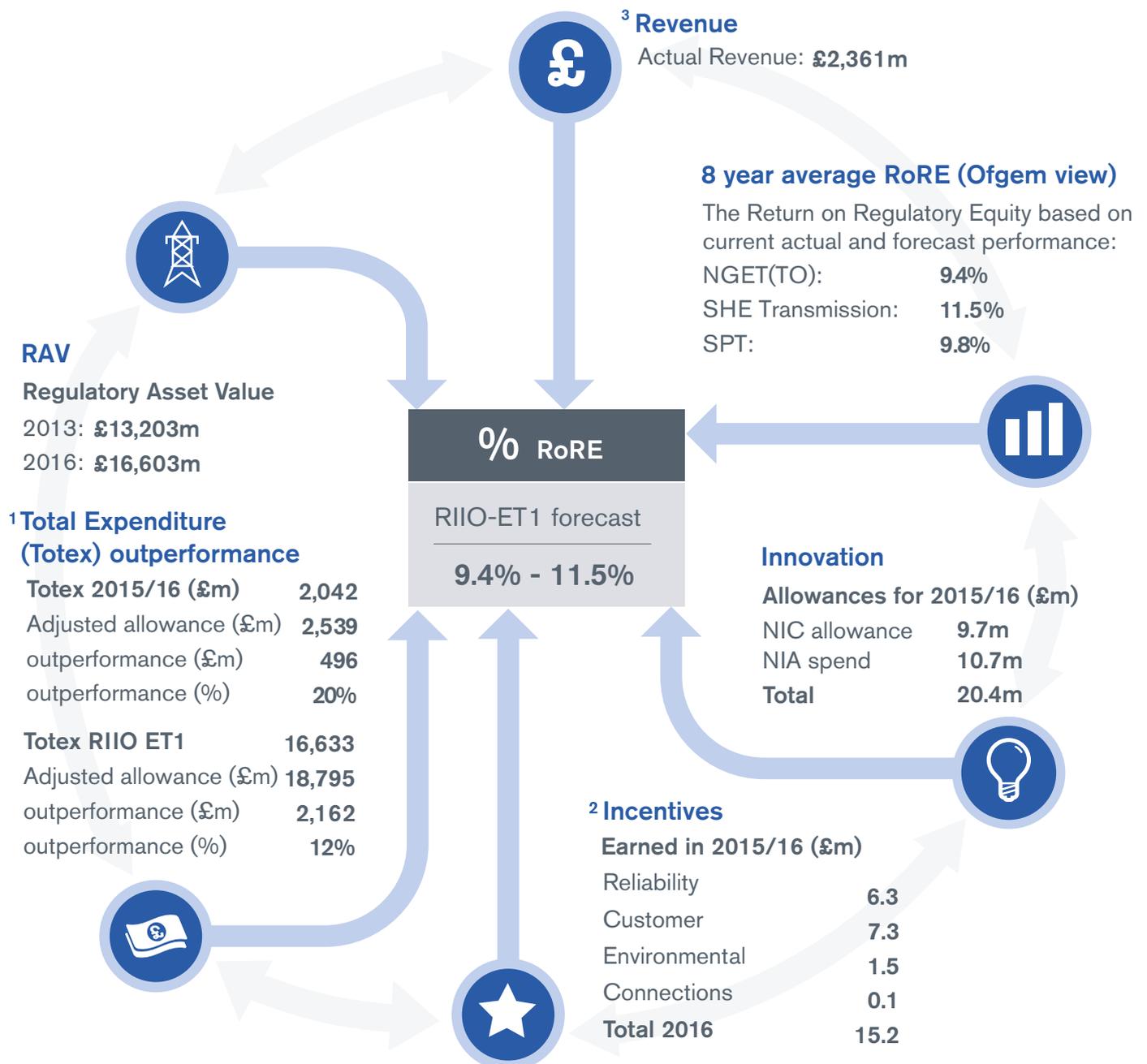
green ✓ All TO's achieved or exceeded the 15-16 annual output target

amber ✓✗ Some TO's missed the 15-16 annual output targets

red ✗ All TO's missed the 15-16 annual output targets

Electricity Transmission Owners

¹Monetary performance, revenue, return and innovations in a glance



¹ all the data relates to the cumulative performance position of all TOs reported in 2015/16, unless stated otherwise. Allowances and expenditure are in 2015/16 price base.

² all rewards are calculated in a 2 year lag:

³ 2015-16 amounts will feed into Maximum Allowed Revenue in 2017/18, and are not final. Nominal pricebase.

Electricity Transmission Owners

Output performance in detail



¹ TOs must meet their legal safety requirements.

² Will be assessed at the end of RIIO T1.

³ ENS: Energy not supplied.

⁴ TOs are obligated to produce and maintain a Network access policy (NAP) document to contribute to better SO:TO interaction and cooperation. NAPs were approved for all TOs in 2015.

⁵ all scores are out of 10.

⁶ Deliver all connection requirements that customers contracted Licensee to complete.

Key

red ✗ All TO's missed the 15-16 annual output

amber ✓✗ Some TO's missed the 15-16 annual target

green ✓ All TO's achieved or exceeded the 15-16 annual target

Electricity Transmission Owners

Monetary performance in detail

	NGET	SHE	SPTL	Total
Regulatory Asset Value 2013	10,574	1,177	1,452	13,203
Regulatory Asset Value 2016	12,128	2,242	2,233	16,603



Rewards and Penalties

The Network Innovation Allowance (NIA)

The NIA was established as part of the RIIO-T1 price control. It is designed to fund small scale research, development and demonstration projects. The NIA provides each licensee with an allowance to spend on innovation projects in line with the NIA Governance Document. This allowance is not subject to competition and companies that will not use the allowance will lose it.

Network Innovation Competition (NIC)

The NIC is an annual competition to which both electricity transmission and distribution companies can apply. It provides funding to a small number of large-scale innovation projects. Its aim is to encourage network companies to innovate in the design, build, development and operation of their networks. If successful, these projects should bring a wide variety of financial and environmental benefits.

Output	Reward/Penalty	NGET			SHE			SPT		
		2014	2015	2016	2014	2015	2016	2014	2015	2016
Reliability	Reliability	2.44	3.91	3.96	1.22	0.19	1.62	2.64	3.03	2.87
Customer	*Stakeholder satisfaction	6.55	7.39	8.43	0.35	0.66	0.58	0.42	0.65	0.74
Environmental	SF6 emissions	1.84	2.42	2.56	-0.20	-0.17	-0.05	-0.17	0.10	0.19
Environmental	Environmental Discretionary Reward (as calculated)	0.00	2.02	0.00	0.00	0.00	0.00	0.00	0.00	3.95
Connections	Financial incentive for timely connections output	0.00	0.00	0.00	0.00	0.00	0.00	0.06	0.04	0.00

Innovation Allowances



Reward	NGET			SHE Transmission			SPT		
	2014	2015	2016	2014	2015	2016	2014	2015	2016
Network Innovation Competition (NIC)	0	0	6.9	0	11	2.8	0	6.5	0
Network Innovation Allowance (NIA)	6.1	9.1	8.8	1.2	1.3	1.6	0.6	0.7	0.8

% RoRE

RIIO-T1 forecast

9.4% - 11.5%



RoRE

	NGET	SHE	SPTL	Total
Return on regulatory equity	9.4%	11.5%	9.8%	N/A

Allowed Revenue (£m)



Allowed Revenue	NGET	SHE	SPTL	TOTAL
2013/14	1,679.7	182.8	295.8	2,128.2
2014/15	1,760.3	228.5	331.9	2,320.6
2015/16	1,715.8	336.7	309.0	2,361.5



Totex and allowances - 2016 and total RIIO-T1 (£m)

	NGET	SHE	SPTL	TOTAL
Totex 2016 only	1,161	524	358	2,042
Adjusted allowance	1,377	811	1	2,539
outperformance	216	287	-7	496
Totex RIIO-T1	11,652	2,770	2,212	16,633
adjusted allowance RIIO-T1	13,380	3,078	2,337	18,795
outperformance	1,728	308	126	2,162

Including SWW and are net of current estimate of capital contributions, and other adjustments.

¹ all rewards are calculated in a 2 year lag: rewards for 2013/14 performance is calculated into 2015/16 revenue.

