OFGEM

OPEN MEETING SERIES

Network Price Control

SP Energy Networks

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ATTENDEES

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Jonathan Brearley	Chief Executive, Ofgem
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Paul Grout	Non-Executive Director - GEMA, Ofgem
Stephen Henderson	Head of Finance Policy, Ofgem
Frank Mitchell	Chief Executive, SP Energy Networks
Scott Mathieson	Network Planning & Regulation Manager, SP Energy Networks
Martin Hill	Head of RIIO-T2, SP Energy Networks
Craig McTaggart	Head of Engineering, RIIO-T2, SP Energy Networks
Stephanie Anderson	Policy & Economics Manager, SP Energy Networks
Angela Love	Chair of User Group, SP Energy Networks
Rob Cormie	Member of User Group, SP Energy Networks
Roger Witcomb	Chair of the Challenge Group
Robert Hull	Member of the Challenge Group

THE CHAIR: Good morning. I am Martin Cave, I am the Chair of Ofgem, and I am also chairing this hearing. Thank you for joining us today at the Scottish Power Energy Networks Network Price Control open meeting, delayed from the spring by the impact of Covid-19.

This and similar meetings are the first of their kind for Ofgem and, despite us not being able to be in the same room, we very much encourage you to get involved as it is important that we hear a variety of voices today.

I am confident this meeting will allow us to have an open and constructive conversation about the consultation responses and key outstanding areas of difference ahead of our final determinations which will be published later this year.

SP Energy Networks have advised us of the topic areas they would like to discuss today. These are net zero, security of supply, and affordability.

The company is first given the opportunity to deliver a 20-minute presentation. We also welcome here today members of the company's User Group and of Ofgem's own Challenge Group. These groups are formed of independent experts convened to review business plans in detail. They will have an opportunity to feed in their views ahead of our opening the floor for further questions.

Please ask your questions on the chosen topics by using the Q and A function on the side bar. I'm afraid there may not be time to answer every question but we will consider them when drafting our final determinations. Questions will also be asked of the company by members of our senior Ofgem team.

We will be making a transcript and recording of these events which you will be able to watch again and will be available on our website once all the meetings have taken place.

We start with the knowledge that the networks have delivered a good service but at a high cost to consumers. This is well documented through our own and independent evidence. We also know that investment in the energy system is going to have to rise as we meet the net zero challenge at lowest cost to consumers while protecting the most vulnerable.

Our overall proposals unlock unprecedented funding for projects which cut carbon emissions to create a green, fair and secure energy system for consumers now and in the future. This will enable our sector to play a key role in the green recovery.

I would now like to hand over to Ofgem's Director of Networks, Akshay Kaul, who will set the scene and give a brief update on where we've reached in the RIIO-2 process with Scottish Power Energy Networks.

AKSHAY KAUL: Thank you, Martin. Good morning, everybody. I would like to begin by thanking Scottish Power, the Scottish Power User Group, the RIIO-2 Challenge Group, and all the other stakeholders who have assembled this morning,

and for your thoughtful and extensive responses to our consultation on draft determinations which have provided very useful feedback and information that we have been reflecting upon in the last few weeks. Since we received the responses, we have had very constructive engagement through a range of technical bilaterals, industry working groups, and of course supplementary questions that we have asked directly with the companies and the respondents.

As you can appreciate, we are still in the process of working up our final determination positions but I wanted to provide an overall summary, as Martin said, of the progress that has been made so far on some of the key themes that Scottish Power have highlighted, such as totex, the uncertainty mechanisms for net zero, the outputs and incentives package, and on finance.

Before I do that, I want to say something about the quality of the Scottish Power business plan and their responses to our requests for further evidence. In our view, the company submitted a rigorous, well researched, well evidenced and well thought through business plan in December which had been through thoughtful and credible challenge from both the User Group and the RIIO-2 Challenge Group, and this has made our job as the Regulator so much easier. It is true that we had some differences with Scottish Power in our draft determinations on both workloads and efficiency but, precisely as a result of the very clear underlying plan, these were in very specific areas and the company has continued to work very openly and transparently with the Ofgem team to address these residual areas of concern, and I wanted to express my appreciation for that.

The high quality of the SP-T plan owes a lot, I think, to the efforts of someone who sadly cannot be with us this morning for reasons of health. Jim Sutherland was the project director who led the SP-T plan and I know I speak on behalf of everyone at Ofgem, Frank, in placing on record our appreciation for Jim's efforts and our very best wishes for his recovery.

Let me begin with totex and our cost assessment. We have had a number of bilaterals at a working level between our teams and SP-T to understand better the justification and evidence submitted for a range of investment projects proposed by the company. In the case of the SP-T's capital investment programme, we received engineering justifications that were not included in the original business plan, and much stronger engineering justifications for the remaining projects in which we have proposed a disallowance at draft determinations.

On the question of cost assessment, we have identified some computational errors in our draft determination baseline totex that are worth overall in the order of tens of millions of pounds of additional allowances for Scottish Power, and I am pleased to say that these will be corrected transparently in our final determinations.

In addition, we are actively considering SP-T's basic clarification and comments on our cost assessment modelling that was provided after draft determinations and which, again, could have a positive impact on the Scottish Power baseline allowance at final determinations.

Turning to the question of uncertainty mechanisms for net zero, we proposed in draft determinations a number of uncertainty mechanisms to ensure that the price control can flex to facilitate delivery of net zero. SP-T were broadly supportive of this approach in their consultation response but highlighted that these mechanisms need to be agile, flexible and responsive to support the development of crucial net zero projects. We acknowledge and agree with the views expressed by SP-T and its stakeholders that the package of uncertainty mechanisms for RIIO-2 needs to strike a balance between protecting consumers from less certain costs and introducing undue regulatory complexity. We have engaged with Scottish Power to understand better their proposals for how to make the uncertainty mechanisms process sufficiently responsive to high levels of in period expenditure.

We are continuing to work with the transmission operators with respect to ensuring that the different mechanisms are fit for purpose and we are actively considering some changes to this framework. These changes could include providing greater funding certainty to transmission owners at an earlier stage of the assessment process and improving the reopener process to ensure a timely and proportionate response from Ofgem to different types of work and projects that may be needed.

For example, looking at our proposed reopener for large onshore transmission investment projects that are worth more than £100 million, the so-called LOTI projects, we have engaged with all the transmission owners to understand what considerations would allow for greater flexibility in that process and we are actively considering the feedback that we have received ahead of making a firm decision at final determinations. Very good progress has been made in this area but more work is required over the next few weeks before we can arrive at a firm conclusion for final determination.

On the outputs and incentives package, the package that we proposed for SP-T in draft determinations reflects both SP-T's RIIO-1 performance and the information that they provided in their December spending plan. Since then, we have received additional information and feedback on our proposed package from SP-T, the User Group and other stakeholders. In particular, I want to highlight the constructive engagement we have had with the electricity transmission owners and the ESO on a proposed common output delivery incentive that targets reductions in system constraint costs. We're giving active consideration to a trial of this sort of incentive and to other potential changes to our outputs and incentives package with the overall aim of setting an ambitious challenge for transmission owners while delivering real value for consumers.

Finally, on the topic of regulatory finance and the cost of capital, we have had significant engagement with Scottish Power and with other stakeholders following draft determinations to discuss the financial parameters of the package and to understand better their responses to our consultation. We have also received and read with interest the CMA's provisional determination for PR19. Although it is provisional, and we await their final findings, even at this stage we do consider the CMA's findings an important contribution to the debate on cost of capital.

We think there are likely to be areas of cross-over between water and energy but also there are likely to be other areas such as the computation of asset betas, the cost of debt, and the aiming-up arguments that the CMA has used which, in our view, tend to be more specific to sectoral circumstances. We would be interested in stakeholders' views on the read-across of the CMA's reasoning to the energy sector and I hope we will have some discussion about that this morning.

In summary, ongoing engagement is crucial to ensuring that we have sufficient funding to continue operating a reliable network, create value for consumers, and to facilitate net zero. We believe that we are making very good progress towards developing our position for final determinations and I very much look forward to hearing reflections from all stakeholders this morning.

Thank you, Martin. Back to you.

THE CHAIR: Thank you, Akshay. I'm now going to hand over to the company for their 20-minute presentation.

FRANK MITCHELL: Good morning. Thank you, Martin, and thank you, Akshay, for those kind words for Jim which are very much appreciated from you and from the Ofgem team, so thank you very much for that.

Let me first introduce myself. I am Frank Mitchell. I am the CEO of SP Energy Networks, of which Scottish Power Transmission is one of the licensed businesses. Today we are talking about the draft determination and the progress since then as far as how we're progressing towards a final determination.

I will be joined this morning in a short presentation by Scott Mathieson, our Director of Network Planning, and we will also be supported under the Q and A by three of our T2 teams, Stephanie Anderson, Martin Hill and Craig McTaggart.

Martin, if I could ask you to put up the cover slide, please. [Music playing over recording] First of all to reiterate, I would like to thank Ofgem for the constructive engagement we have had since the draft determinations were published to address the issues identified, clarifying evidence we have already submitted, but also providing new and updated information for some of the projects. These meetings are important, as Akshay says, to ensure we reach a position that strikes the right balance across consumers, investors, and also addressing network improvements apace.-

I believe we are approaching T2 from the position of having a strong track record, having delivered our T1 plan, which we set out to do and *(inaudible)* cash-tracked as SP-T under T1 and recognised as having the most efficient T1 business plan.

SP-T went further in the T2 plan, based on a strong base of innovation which we have been embedded in our plan to the benefit of consumers, and our T2 plan is

over 9 per cent more efficient on a like-for-like basis than our T1 plan, that was recognised as the most efficient plan at its time.

Net zero is, of course, a challenge of our time, a mountain to climb. I believe we are currently at the foothills of this challenge. Having largely decarbonised the energy sector, we face doing the same for transport and heat. If we are to hit government targets, we need to make rapid progress in the next five to ten years while making sure we maintain world class levels of reliability.

I don't believe the current T2 draft determination will achieve this. It failed to provide sufficient funding, is too inflexible to deal with the uncertainty that net zero brings, and I am concerned will put GB towards the back of the queue for attracting global investment. Again, to reiterate, we have had constructive engagement since that was published with Ofgem and that will continue.

Martin, can we move to slide 2, please?

I believe our T2 plan is ambitious and with a high confidence in delivery of our baseline plan of £1.375 billion. We have also sought to protect consumers by the efficiency we have embedded in the baseline plan and are the only transmission company in the sector to propose a plan with lower expenditure than our RIIO-T1 run rates by some 6 per cent. We've also sought to strike the balance between our baseline plan, high level of certainty, and the need to balance the uncertainty that lies ahead. We have proposed up to £1 billion of further projects via the uncertainty mechanisms. This can best be reflected in the fact that although we have around 5,000 MW of new generation ready to connect, our baseline plan has only 900 MW built into it.

We have a strong track record of delivering our plans. We remain on course to deliver all of our outputs. Our T1 costs are close to our original forecast and have also driven further efficiencies through this period to share with consumers, not windfall gains, not by missing outputs, but delivered through efficiency and innovation.

The world class level of reliability our customers expect and deserve is a key pillar of our plan. The transition to more electrification of heat and transport places a greater reliance on our network but we are also mindful of ensuring our plan is affordable.

Extensive engagement with consumers and stakeholders, including the Scottish government, has shaped our plan which we *(inaudible - distortion)* independent transmission User Group.

Our T2 plan will cost £4.74 per customer per year. We surveyed over 2,000 consumers from across Great Britain and from different social economic groups and 81 per cent of them supported our T2 business plan.

We understand the consequences of fuel poverty and we work extensively with our vulnerable customers but what we have proposed in our baseline plan, we believe, is absolutely necessary to allow net zero targets to be achieved and to avoid the impacts of unreliable supplies.

I would now like to hand over to Scott Mathieson.

SCOTT MATHIESON: Thank you, Frank. As Frank just highlighted, achieving net zero is the challenge of our time. We wanted to ensure that our plan was at the forefront of delivering net zero, but we balanced a request to protect our consumers and, as Frank has touched on, our track record is strong in this area. We have already facilitated 11 GW of generation within the Scottish area and we are in a unique position in terms of the network. Part of facilitating that renewable generation was also building interconnecting infrastructure that allows 6.6 GW of that capacity that are renewable, clean energy, cost efficient renewable power to get down into England and Wales, ensuring that Scotland and Britain as a whole can achieve its statutory targets with respect to carbon emissions.

Ahead of us lies a significant challenge. As we prepared for T2, we saw that there were 5,000 MW of generation seeking to connect to the grid but we looked to work very hard to identify what was certain to be connected in the period and actually we proposed baseline funding from 900 MW of that, less than 20 per cent, because of its certainty. We also worked hard to make sure that we took a whole system approach. We also were facilitating 700 MW of smaller scale renewable generation connected on the distribution system, get access into the wider main interconnected transmission system, and therefore the GB market. When you take all of that renewable generation together, the benefit that that yields for society as a whole is 1.6 million tons of carbon reductions per annum.

Our investment is also targeted at reducing harmful greenhouse gases like SF6, and reducing the use of that as an insulating medium. It is about supporting 158,000 electric vehicles get on the streets in the central belt of Scotland between now and 2026, supporting the Scottish government's clean energy objectives, also ensuring that public transport, with the programme of rail electrification set out by Transport Scotland, can actually be delivered as part of that plan. Ultimately, we were looking to utilise the system efficiently and we put forward plans that would reduce constraint costs by up to £152 million per annum to the benefit of consumers.

In this rapidly changing environment, we've proposed pragmatic uncertainty and incentive mechanisms that will also allow us to go beyond the baseline that we've proposed and drive towards net zero.

However, the draft determination did challenge that, and I welcome and endorse the point that Akshay made about the constructive engagement we've had. The points I am making are specific to the draft determination as it stands.

There are three fronts that we saw a challenge in the area of load-related expenditure. We saw our expenditure in the draft determination reduced by 23 per

cent and that has real consequences for our customers. I mentioned rail electrification. Transport Scotland have a plan to extend the amount of public transport that is electrified in terms of rail in Scotland. There were six potential projects that we looked at. Two had high certainty and we built those into our plan. At the draft determination, they were one of the items that had been removed. So we need to see real progress, tangible progress, against those reductions in order to actually satisfy our customers' demands over …*(inaudible – distortion)*

Equally, on uncertainty mechanisms, we think this is a very important point and endorse the points that both Martin and Akshay made at the outset. Uncertainty mechanisms will undoubtedly, in this uncertain world where investment is growing, have a big role to play and they need to be effective and workable and agile. One example of where that has not been the case is the medium-sized investment projects. I think and Akshay talked about LOTI projects but medium-sized projects, if we can turn to those, those are projects that are less than £100 million.

(Inaudible – distortion) … window proposed in the draft determination for companies to seek funding. That's, again, a real customer issue for us. We have 2.3 GW of offshore wind seeking to connect into East Lothian on the east coast of Scotland and those projects are actually under way at the moment and we need to build that substation now. Waiting until 2024 to obtain that funding would only frustrate and hold up our plans for accommodating that offshore wind generation and ultimately that would provide clean, efficient, low-cost power for around about 2 million homes. So there are real consequences to these reductions for our customers that we need to advocate and represent through the constructive discussions that we're having.

We also think that the draft determination needs to be adjusted to strike a better balance between incentives. Incentives can create a real stimulus for companies to collaborate and solve problems to the benefit of customers, we fundamentally believe that, and it was encouraging to hear that Akshay acknowledged that one of those areas was the whole system mechanism that we had proposed, working with the system operator and the transmission owners to reduce the impact in terms of constraints from planned outages on the transmission system. Again, that can have a real tangible benefit of bringing costs down to customers.

Again, in the weeks and the months since the draft determination – this was a media tectonic shock in terms of the draft determination – I have been encouraged by the direct engagement that we've had with Akshay and his team, making sure that we can try to close the material gaps in the best interests of consumers in this area.

I would like to turn to the next slide. Of key importance, certainly our transmission system underwrites the security of supply, and we're very proud of our world class leading performance in terms of the reliability of that system at 99.9998 per cent, something to be proud of globally.

Our investment plan targeted and focused on the highest priority assets that were in the poorest condition. It was supported by an asset management strategy that

Ofgem have actually audited as recently as 2019. They came out and performed a number of physical site visits and looked at our data, looked at our information, and looked at our approach and gave that an endorsement in 2019, and we were proud of that fact. The targeted plan delivers £1.9 billion worth of monetised risk benefits for consumers using Ofgem's own measure.

Before submission, we employed an international independent consultant to scrub through every cost, every single line out, a company called Bacerus(?), who have worked on both sides of the regulatory table on various regulatory submissions, and they concluded that our costs are reasonably efficient.

It was great to see also that actually Ofgem, and I think you get a sense of that from Akshay's words at the start, is that Ofgem also agreed with the strategy and we were pleased to note that Ofgem recognised this in writing, stating that they considered that the projects are well justified by asset condition reports, degradation projections and engineering matters. Indeed, they went on to say that the needs cases are either linked to industry standard processes such as the network options assessments, or credible local needs, those local needs that are incredibly important.

We are also grateful for Ofgem's Challenge Group's – and it's great to see Roger Witcomb here today as well – support of the justifications. In their January report, they stated that SP-T have provided good evidence in their draft and final plans in response to our request for expenditure justifications. They went on to say these have generally been well set out, provide a logical justification, and have considered several options, as well as the one proposed for implementation, before ultimately concluding "In being very specific about their proposals, SP-T gave us some confidence their non-load related expenditure plans are robust, likely to be delivered, with relatively low levels of substitution and change".

So, despite this, we were surprised by the draft determination proposing cuts in a non-load related plan by 36 per cent through SUs with respect to errors, again, as was referenced at the start, but also some flawed approaches to benchmarking. We've tried to engage constructively and submit more evidence and explain the evidence that was already submitted as well. The impact of this would be that the monetised risk to consumers would actually be adversely impacted by around about £680 million, again, on Ofgem's measure, if this wasn't addressed by the final determination.

So, again, examples of that from the real world that my engineers operate in is that we would have to majorly descope mainly work on overhead lines or on key critical sub stations. For example, we might not be replacing end-of-life poor condition conductors from overhead line circuits where we had planned major refurbishments, because that conductor was at end of life, with that ultimately being only postponed to a future date, costing the consumer more and increasing risk on the network in the short term.

Some of the cost of reductions that were put forward will simply result in projects not being delivered, a 132 PV substation close to Hunterston power station, directly

involved in Hunterston nuclear power station, a critical node of the network, so its cost reduced by 68 per cent in the draft determination because of those issues that we highlighted, meaning that the project may not be viable.

Similarly, despite having no challenge in terms of our network operating costs in the run into the draft determination, we saw a reduction of around about 22 per cent in our inspections and maintenance costs. Again, what this means in the physical world is that we may not be able to respond to as much as 42 per cent of our fault activity, 20 per cent of our maintenance activity on key assets might not be able to be completed, and 30 per cent of our overhead line network not inspected or vegetation managed.

Again, I need to emphasise, because that was the position in the draft determination, there has been a huge amount of work going on, on both sides, and I hope that by the time we get to the final determination we will see a solution and a closing of that gap that allows us to maintain the outstanding track record that this network delivers in terms of reliability at 99.998 per cent.

If I can move on again, please, Martin, Frank opened up with this at the start. We have gone to huge and significant efforts to make sure that we engaged extensively and at great cost to the company with our stakeholders. In building our plan, we engaged with nearly 7,000 external different stakeholders bilaterally, at events and in person, and we received over 144,000 engagements through our social media campaign entitled #challenge our plans campaign. That extensive engagement took place directly with consumers and our independent research showed that 81 per cent of consumers surveyed accepted our plan and the associated cost at £4.74 per average bill per year. In the case of vulnerable customers, which we also tested, this figure was 83 per cent.

Our stakeholders' ringing endorsement highlighted that they recognised that companies are competing for capital on an international stage and that attracting that investment was critically important. They saw real value and the benefits that that investment can bring, not only in delivering net zero and in ensuring world class system security, but also in underpinning a green recovery and creating jobs.

In T2, we provided an efficient plan with a material reduction of around about 6 per cent in proposed expenditure levels when compared to the T1 run rates, and this was highlighted in Ofgem's own draft determination. This was unique in comparison to our peer companies where expenditure proposals actually increased against T1 significantly. As well as taking every measure to make sure that our costs or lines of cost were efficient, we also proposed a reduction in the headlight rate of return by around 21 per cent, compared on a like-for-like business to its T1 equivalent.

The draft determination has gone too far in terms of rate of return and we find ourselves competing for investments in a world where investors in transmission can receive almost twice the level of return in the US transmission systems when compared to the draft determination, and we believe that this needs to be

considered in light of the further evidence that has emerged from the Competition and Markets Authority.

In the current climate, all governments that we serve – and in SP Energy Networks we serve all three of our governments in the UK, the Scottish, the Welsh, as well as the British government – we recognise that the drive for net zero is also underpinned by the need for a green recovery. That brings not only the challenges of climate change and making sure that our infrastructure is adaptable and resilient, but also significant risk uncertainty that we have to negotiate to deliver for our consumers. We have no doubt that we will need those uncertainty mechanisms to work to go beyond our baseline levels of investment in the transition to net zero.

The CMA has demonstrated a direction of travel for returns and we want to work with Ofgem to ensure that higher risk of our sector is reflected through.

70p was the cost difference, and I do not mean to trivialise that in any way, but this is a small price we believe to pay for the creation of job opportunities, for supporting that green recovery, and ultimately delivering real, tangible consumer benefits for the communities that we serve and operate in and that our staff ultimately come from.

If I can move on again, I have hopefully laid out that there is a lot at stake with respect to the final determination, which we hope will improve the position against draft, both in terms of delivering our net zero targets but also in maintaining the reliability of our world class system. I hope I have at least begun to illustrate that we set out very earnestly to produce a prudent plan, a realistic business plan, that was tested with its stakeholders and customers rigorously. It seems clear in the current environment that that investment is becoming more important. It should not be missed that the UK is likely to miss its carbon reduction targets and with every speech recently in the recent weeks with the push towards more and more renewable generation, including offshore, the importance of the infrastructure that will actually support the connection of that additional renewable generation or technology on the demand side like electric vehicles or electrification of rail.

All of that can create jobs, not just within these companies but within the supply chain. It is worth pointing out that over 90 per cent of what we actually deliver is competitively tendered in a market and that we create jobs well beyond our business and, again, within the communities that we supply and serve. In this context, we consider that there are further constructive steps that Ofgem can take to address the issues we have identified with the final determination and ensure that offers a package that can really deliver for our customers.

A package of incentives was proposed and our business plan offers a better balance between penalties and rewards. Again, I recognise the words that Akshay had highlighted, that we can see some movement in the area, like the incentive to reduce constraint costs, and that is positively received. We've worked hard to ensure that there were incentives, were well justified, and we want to see more of them that can really benefit the customer. Some of them were reputational.

For example, improving our biodiversity net gain when we deliver our major infrastructure is an important one that we put forward, which was largely reputational.

The policies of national and devolved governments are going to continue to change and develop as we move forward and we've got to be able to adapt and respond. In no way does Scottish Power Transmission want to be seen to be a blocker in the drive for improvement and progress in that area, so, we do think that more expenditure will need to come forward beyond the baseline, but we've tried to strike a balance to ensure that, again, we are acting prudently at every step and that we are realising that expenditure as it comes forward. Equally, all of that also needs to be underpinned by a viable financial package that can allow us to compete for funds in a global market.

If I can move quickly to a conclusion, again, I pick up and acknowledge Akshay's point. We've had good access, we've tried to submit more data and we've worked hard, and Jonathan and Akshay have made themselves available to Frank and I, which is appreciated.

Ofgem have assured us in those engagements that good progress is being made in the totex position, compared to the position that was set out in the draft determination. Without this, we fundamentally believe that our ability to deliver our statutory licence obligations could be compromised so we need to see these changes fully reflected into the final determination that lies ahead.

Ultimately, we do require to go to market and attract the necessary investment that will deliver these investment programmes and benefits. That, we recognise, has to be balanced against the consumer benefits as well. The finance package in the draft determination does not at this point strike that balance and empirical evidence does not support the position taken by Ofgem at draft determination. Again, I am encouraged to see that they're considering the wider evidence that has been developed.

Adjustments such as the outperformance wedge simply, we believe, are not justifiable and create further risk and uncertainty in this sector. Equally, we need to improve the balance of risk and the balance of incentives in the draft determination. Incentives can be powerful and, again, it's encouraging to hear the whole system incentive that we put forward is beginning to get a bit of traction and is being seriously looked at.

As a whole, there are still a number of elements that need to change before we get to the package and, as Akshay said at the outset as well, I endorse the fact that there is work to be done and we stand ready to work shoulder to shoulder with Ofgem to try and turn this around in the best interests of customers.

The response from Ofgem since the draft determination has been incredibly constructive and we've done everything we can to support them through the process. We're committed to continuing that and we're committed to making sure

that we can deliver real value for our customers, balance the needs of our investors and deliver for the wider country as a whole.

Frank, I would like to hand back to you at this point.

FRANK MITCHELL: Thank you, Scott, and thank you for listening to our presentation. We slightly overran there but I just want to make sure that you understand that affordability has been at the heart of our business plan. We have driven more efficiencies through already our efficiency one plan and the only transmission business and we have a T2 baseline plan with less expenditure than the T1 plan, despite having broadly the same scope of works. We are trying to strike the balance between certainty and uncertainty and, with that, 81 per cent of approval rating from a customer survey endorses that approach.

Hopefully, you recognise our track record on delivery and you know that SP-T stand ready to help support the green recovery, create jobs, and can deliver net zero at pace.

Thank you for listening and thank you to the Ofgem team for your constructive engagement and your access through the last couple of months. Thank you very much.

I now hand back to Martin, I believe.

THE CHAIR: Thank you, Frank and Scott, for that presentation. I am now going to hand over to the company's independent User Group.

ANGELA LOVE: Thank you very much, Martin, and thanks as well, Frank. If I could ask Faye to start this presentation, please? Thank you.

I'm Angela Love. I'm here to represent on behalf of the Scottish Power Transmission independent User Group to talk you through our thoughts in terms of both the process that Scottish Power went through with us as the User Group but also our thoughts on the draft determination.

Our User Group was established in September 2018, with Scottish Power appointing the User Group Chair and then the Chair being asked to assemble members that they wanted to work with who they believed would be able to look at the customer interest as well as providing technical and sector-specific knowledge.

From that point, Scottish Power commenced a process with us looking at an in-depth explanation of the price control process. They also facilitated site visits to explain the assets and infrastructure and provided experts within their business to us so that we could ask questions and get a real understanding for how Scottish Power operated its business and also the assets they use in that process. That was a real opportunity for the User Group to come together and learn about the Scottish Power business and understand some of the challenges that they faced at that time and then also ongoing into the future.

At that point, there was a premise established for the User Group of an "access all areas" and that covered not just Scottish Power's sites but also its people so, at any opportunity we had where we wanted more information, Scottish Power brought forward people to explain certain aspects of their business or the processes and things that they were looking at in respect of the plan.

The User Group members, our Chair was the Right Honourable Charles Hendry. Charles has stood down from the role as Chair and that's why I'm presenting today on behalf of the User Group as I've been appointed as the new Chair of the User Group going forward. What Charles did, as I mentioned in the last slide, was he looked at trying to assemble expertise from across the sector for us to be able to provide skill and understanding to certain issues from both the market perspective, the consumer perspective, and from technical perspectives.

The User Group itself was made up of a number of individuals, some of whom are on this slide and on subsequent slides. Of those individuals, a number of us actually live in the Scottish Power Transmission area, so we are end consumers of Scottish Power, but equally there are a number of the people within the User Group that were major customers of Scottish Power.

In addition to the User Group members, we also were provided with support from Cancana Duckney(?) from Strathclyde University. She's a PhD student. What that meant was we were allowed to use our skills and expertise in looking at the detail and also looking at the bigger picture in respect of the market, whilst Cancana helped us in creating our reports and our engagement with stakeholders.

I understand that a number of the User Group so far have concentrated on the process. That's not actually where we want to concentrate our presentation today. What we're talking about today is what our observations are in respect of the draft determination. Really that's where we've seen the benefit of our User Group to provide that technical expertise and understanding of consumers and understanding of the market to be able to help shape the business plan that Scottish Power put in place.

So throughout the business plan process we considered the needs of connected customers. As I mentioned, there are a number of people within our own User Group who are, as a day job, part of connected customers' businesses, as well as end consumers. We looked at end consumers, in particular vulnerable customers, and we challenged Scottish Power accordingly. On a number of occasions, I do recall that we talked about the cost to vulnerable consumers, bearing in mind how many customers would go into fuel poverty when costs increase across the market. So that was definitely at the forefront of the thinking of User Group.

Looking at the three areas that we want to concentrate on in our overall messaging, the first one of which is net zero, whilst we were going through the process, as you'll appreciate, we started the User Group in 2018, the government and the Scottish

government announced net zero targets, so that was something quite new and was a fundamental change and also required fundamental change to deliver net zero.

We expect that there will be pressure to bring forward the delivery dates that are already set out and we believe that the transmission and distribution networks will be integral from the energy market side of things in delivering net zero.

At the same time, we'll be seeing new generation models come forward and new consumption patterns, so that's a subsequent challenge that Scottish Power will have to deal with.

In respect of benefit to consumers, we believe that the projects and the initiatives set out by Scottish Power Transmission made eminent sense and that they had a strong consumer benefit and at a reasonable cost to consumers.

Looking also then at reliability, this is one of the things that we recognised between the people that were on the User Group and the presentation material on stakeholder engagement that Scottish Power carried out, that the primary interest of consumers and for Scottish Power Transmission is for a reliable system. The customers also want good connections to work consistently and for connections to be timely and delivered on time and, in addition, for charges to be reasonable and affordable.

In the view of the User Group, we believe that the Scottish Power business plan achieves strong consumer benefit while securing reliability, but we are particularly concerned about the projects that Ofgem has rejected. It has been heartening to understand the work that Ofgem and Scottish Power have been doing in the period since the draft determinations were issued. However, one thing that I would like to point out is there was quite a bit of disillusionment on the part of the User Group when we did see the draft determination come out so we're really pleased to hear that that situation is being addressed.

On our specific views, we have factored these around five things. In respect of ambition, we believe that there's a balance that has to be struck between reliability and new ambition. The User Group pressed hard on ambition because one of the things that we found was that Scottish Power didn't want to be overly ambitious, that they are more a company who wants to deliver on what they say they will deliver, rather than being overly ambitious and not delivering on what has been set out. So whilst it is the company's decision as to where their ambition lies, we explored the consequences of the company's approach so, as I say, we were trying to push them to be more ambitious. We could appreciate where they were coming from so we explored what the potential consequences were from their approach.

In terms of conflicting priorities, Scottish Power Transmission is in a unique position, sitting between Scottish Hydro Transmission in the north and National Grid in the south, so that uncertainty is reflected in the scale of the uncertainty mechanism for Scottish Power. However, we believe that there has to be a balance between the different ambitions from the Scottish government and the Westminster government.

Again, that's something not unique to Scottish Power because Scottish Hydro faced the same, but it's something that they have to balance and we're grateful for the fact that Ofgem recognises that.

From a stakeholder engagement perspective, we've seen substantial stakeholder engagement from Scottish Power, and it was really thorough in terms of the approach that they took. It evolved quite significantly through the process and, in particular, we would note that Scottish Power responded positively to the User Group challenges.

From an innovation perspective, considerable progress was made on innovation. However, we would have liked to have seen a greater distinction between day-to-day and new innovation. In addition, we would also have liked to have seen more ambitious targets but, again, this potentially relates to Scottish Power being more cautious and wanting to deliver what they say they will deliver. However, we were pleased to see the new bespoke incentives around generation not accepted and optimisation and, again, that was one of the things the User Group pushed hard on.

Although financeability isn't within our remit, we believe that it goes to the heart of whether the business plan can be delivered. We didn't want to come to this session and not mention financeability. We believe that it's self-evident that there is a direct correlation between the allowed rate of return and the amount of risk that the company will accept, which obviously Scottish Power has just set out.

In concluding, Scottish Power has created the business plan with an iterative approach and the User Group have been involved at every stage of that approach and have spent significant time in helping Scottish Power develop that plan.

Scottish Power appear to us to have done the right thing in terms of delivering on the plan and also looking at a plan that is affordable and will deliver net zero, at least deliver the contribution of the energy sector in net zero, but also at the same time sustaining security of supply.

All of the User Group comments and challenges were considered by Scottish Power and incorporated in the plan and one thing I would say is that the plan is substantially different with the User Group being involved and I think and hopefully – I am not speaking for Scottish Power but from what they have said to us – they appreciated the opportunity for the User Group to do that. We would describe it as we co-created the plan, and that was the final version that went to Ofgem in December. What the User Group was able to do, as I say, by using our support on the report was for us to more focus our experience and our expertise in the market and understanding the future challenges for the market to help the Scottish Power plan be more robust.

Ultimately, I would come back to the fact that the User Group is concerned that the draft determination proposals as they stand will not allow Scottish Power to play the part that we want them to play in delivering net zero but, as I said earlier, we are quite happy that it sounds as though Scottish Power and Ofgem have been working

together to try and resolve some of the issues and understand that hopefully a better plan will come out at final determination stage.

Thank you.

THE CHAIR: Thank you very much for that, Angela. This is a good moment for me to remind everybody that the Q and A period is going to start in a very few minutes so, if you want to ask a question, please use the Q and A function on the side bar. In the meantime, I introduce the Chair of Ofgem's own Challenge Group, Roger Witcomb.

ROGER WITCOMB: Good morning, everybody. I'm Roger Witcomb, as Martin says. I am Chair of the Challenge Group. The Challenge Group was set up by Ofgem to challenge, as we agreed, both the companies and Ofgem, and I think that's probably what we've done. There are 12 of us. The others all have enormous expertise and wisdom and, as I have discovered, none of them is shy.

These are our conclusions.

The first thing to say, I think, is that in this hugely uncertain world, the route that Ofgem are proposing of an adaptive price control with lots of uncertainty mechanisms, especially around net zero, is the only way to go. We also agree that there is the risk that the whole thing gets bogged down in bureaucratic toing and froing and there's going to be a huge burden on Ofgem to ensure that that doesn't happen and that the decisions which are taken, as it were, after the final determination are taken rigorously and transparently and move the country towards the place we're trying to get to in terms of net zero, quite a challenge.

We also agree with both the company, I think, and the User Group that Ofgem could very usefully build confidence in the process by being rather more explicit than it was in the draft determinations about how it has taken account of stakeholders' views in its decision-making. I think that's something which I suspect Ofgem has taken on board as a whole.

Moving to Scottish Power, we are enormously heartened to hear about what has been going on between the company and Ofgem since draft determinations, or indeed before that as well, I suspect. We too have found Scottish Power very easy to deal with, very responsive and open. It doesn't mean we agree with everything but it has been a good process and we're glad to know that it is continuing.

On totex, which is the big issue, we noted that Scottish Power quoted us, saying that "overall we find expenditure to be well justified". That was actually only half of the sentence. The rest of the sentence went on "but we are concerned that non-load related expenditure has increased significantly". That really shows the job that we can do. We don't have the same level of information and resource that Ofgem and the companies have. The approach we took on both expenditure and costs was to look at the sorts of level of detail that we were able to and identify those bits which we thought were, if not dubious, at least deserving of considerable further

work, and that was very much true around non-load related expenditure. It's good to know that that dialogue is now continuing and that confidence is being established on both sides on where they are going to end up.

We do generally, and specifically I think it applies to Scottish Power as well, have a slight concern on the output incentives around particularly the reputational incentives. If Ofgem and indeed we are successful in making this really quite a challenging settlement for the companies, we are a bit concerned that some incentives, particularly around environmental outputs which are reputational incentives, may get overlooked when things get tight. Companies may decide that reputation is a luxury they can't afford. So we would ask Ofgem to look again at some of these incentives to see if you can sharpen them up either by making them financial incentives or licence obligations or price control deliverables or, at the very least, to insist that companies publish their performance against some of these outputs.

That takes us on, I think, to two issues which are very broad policy issues, I guess. One is the outperformance wedge. I have to say that probably most of us, when we first saw that, were extremely doubtful about whether that was a good idea. Since then, we've looked at it further and we've decided it probably isn't a very good idea but is better than all the others to address what is a real problem. The problem is one of outperformance, historical outperformance. That's not just the fact that RIIO-1 has seen some very high returns to the network companies. It's over the entire tapestry of utility regulation across all the utility sectors which are price regulated and across not just the UK but other countries as well. Historically, companies have always outperformed on average, not always. On average, if you look at it from a statistical point of view, they have significantly outperformed, and I'm using the word as a statistician, the rates of return which were expected and that's an obvious consequence of the asymmetry of information and occasionally asymmetry of resources as well. You would expect that to happen so the question is what can you do about it? We looked quite hard at various things that could be done and came to the conclusion that an outperformance wedge, even if it looks a bit odd, is actually the least bad way of solving that particular issue.

Moving on from there to finance and WACC, rates of return, allowed rates of return, we said in our report in January – and we repeated that belief in our response to the draft determination – that proposed WACC was very much in line with what the market would expect and that Scottish Power would be financeable under the proposals of Ofgem. Since then, of course, we've seen the CMA provisional determination. It is only provisional. I have no doubt that a great deal will be said about it and a lot of submissions will be made to the CMA. We haven't had time to look at it in huge detail and, in particular, we've chosen not to attack it through "Have they got the betas right and have they got the risk-free rate right and is it an asset beta or an equity beta?" – all the arcane stuff that goes into a CAPM specialist's econometric modelling. We've gone into it the other way and asked investors and the advisers to investors. That's early days as well but, on the basis of the limited information that we've had, we still see no reason at all to change our view that it's an appropriate rate of return and that the companies in general and

Scottish Power in particular will be financeable under that rate of return. Obviously, that is under continual scrutiny by everybody but that is where we are at the moment.

Incidentally, our view is that Covid in particular has actually increased the relative attractiveness of regulated utilities and, if there is any argument at all, it would be for a reduction in WACC, but that is definitely one for Ofgem.

I think that is everything. We have actually enjoyed working with Scottish Power. We find them open and helpful and we very much hope that the conversations going on at the moment will lead to an outcome which is acceptable to everybody.

Thanks very much, Martin. Back to you.

THE CHAIR: Thank you, Roger. We've now got just short of 30 minutes left for questions and I'm going to hand over to Akshay to orchestrate the Q and A.

(Pause – technical issues)

JONATHAN BREARLEY: What I suggest we do, while Akshay is getting his sound together, is I'll kick off with the first question and then we'll take it from there.

Frank and Scott in particular, thank you very much for your presentation. I would like to start by reiterating some of the comments about how we're working together. One thing I think we all agree on is we want to make sure this price control plays its part in getting us towards net zero and, as I think we all accept, we know that this means that price control needs to adapt and change as different decisions are made by government and indeed as the environment changes around us.

It has raised some concerns about that uncertainty mechanism, how it might work. Do you want to highlight those and then just give me a temperature check of how well you think we're doing collectively at trying to design mechanisms that you think would be fit for purpose?

FRANK MITCHELL: Thanks, Jonathan. I would like to reiterate, I think we all have the same outcome in mind. There's no doubt in my mind that the Ofgem team see net zero as very important, and so do we, and I think that's very clear in the engagement we've had.

I guess at the heart of it, the discussion we're having and ongoing, is how do we balance those uncertainty mechanisms to make sure we get the investment but also protect consumers? That's at the heart of this.

I think also at the heart of it is alignment on the pace and the skill of what we have in front of us in what we have to do to meet some of the government targets that are coming out and actually emerging over the last week with the Prime Minister, et cetera.

Let me, I think, pass over to Scott to maybe talk about that a bit more specifically, about some of the issues he highlighted in the presentation, but there's no doubt in my mind that the constructive work we're doing together hopefully will land it somewhere that is going to be balanced at an outcome for both increasing the investment needed but also managing consumers in particular as well over the next couple of weeks. Let me ask Scott to comment.

SCOTT MATHIESON: Thanks, Frank. Jonathan, it goes to the heart of the matter and I also noticed that there was a question posted about this area. So, again, we've tried to act prudently and respond to the strong signal that you sent out that put forward certain investment for the baseline but that does place a greater emphasis in terms of uncertainty mechanisms

Because Scotland led the drive towards renewable wind power in particular, ultimately 97 per cent of the generation connected in Scotland is of a renewable source. The only last remaining thermal plant is effectively --- or non-nuclear, if you set them as a clean form of plant, is Peterhead. So 97 per cent renewable generation, we've been through this challenge and we were able to create uncertainty mechanisms that worked. When I joined the business, our interconnector into England and Wales was 850 MW, and it now stands at just short of 7 GW. 2 to 3 GW of that has been achieved actually in the last three to four years. That's an incredible delivery in terms of transmission infrastructure but that's actually been delivered through uncertainty mechanisms.

You actually made the point about the LOTI mechanism, so for large chunky – I think you once described them as behemoths as well – investment, we need the LOTI mechanism to work. It needs to work on a time scale that allows us to get planning consents. When you're trying to obtain a planning consent, regulatory certainty is a key component of that. It needs to march with the delivery allowers, the pre-engineering works to get on, and make sure that we have certainty about the course of the project, allow us to deliver against the planning and get on and deliver that for customers. It can be done and we've delivered other big infrastructure like that.

I also highlighted the importance of the medium-sized investments uncertainty mechanism, in particular, and I know that recently you began to work on the idea that actually that one iteration during the price control was not enough and we need to look at an annual iteration. I think that's incredibly important. That plays into the agile piece. We have got to get these to work by the final determination.

So I think, in conclusion, there's a track record within our business of actually being able to deliver against large investments. We have real projects under way at the moment, and I highlighted the first, the fourth and the fifth - over 2 GW of offshore wind looking to connect in Scotland on our patch, in our transmission network. That could be done under the IMSIT programme but it needs an annual iteration, it needs to be agile. When we move to things like the East Coast links that are also required, I think there is up to three of them now potentially required, where the LOTI mechanism has got to work as well. I think we are working constructively with you

and Akshay. I attended with Frank the meeting you held last night with the other CEOs across the industry. I think that was a constructive engagement and it was clear that you were listening to some of the things that we needed. You also sent out a very clear message that we also need to think about the things we have to do on our side and that was heard.

JONATHAN BREARLEY: Brilliant. Thank you. One more supplementary question from me and then we'll try Akshay's sound and see if that's working again.

Just to pick up on what the Challenge Panel said around non-load related expenditure, do you guys just want to respond to that and give us a sense of why that has changed and the challenge that they made?

FRANK MITCHELL: I guess I'll maybe bring in Scott but at the end of the day we have an aging asset. We don't turn over these assets very frequently. One in 100 years is roughly our asset turnover. So what we have to do is to be very careful on asset management to protect these assets and not to overspend on them as well. That's really at the heart of what we are trying to do, to strike that balance and get as much out of the current assets that we can, but it ends up putting a bit more on load. As far as refurbishment, to line replace and increasing our maintenance and inspection to protect those assets and give them as long a life as we can is at the heart of our mission.

Perhaps Scott may want to comment further.

SCOTT MATHIESON: Yes, again, I can't emphasise enough that we've given detailed information and I think we have submitted a further 22 engineering case studies into Akshay and the team, as well as spent extensive time just going through the data that we had already submitted with the team.

The reality is that Ofgem largely recognise that the work needs to be done, so each of the items that we have put forward in terms of a non-load related plan. Whether that's a substation or overhead line, you recognised that we have targeted poor condition, high criticality assets. The biggest quantum, the reduction, was in terms of costs, and a lot of that came through some of the approach to benchmarking and some of it we're still working on. Akshay mentioned the fact that we're working on the application of the efficiency factors and how that feeds through into the unit costs.

So I think I would emphasise, we listened carefully to the Consumer Challenge Group. I actually attended the last Consumer Challenge Group and Bob Hull, who is maybe here today, and Alan Brace, the experts within the Consumer Challenge Group, challenged us on why we were doing so much refurbishment in relation to other companies, i.e. refurbishment being much more cost-effective than wholesale modernisation as well. So I think that began to be recognised post the January report from the Consumer Challenge Group as well.

I would go back to the point that I made in the presentation, that your team – and I welcome this – Peter Bingham's team, were out in the field looking at the assets that we prioritise and that we're looking to replace and address on non-load related spend. They scrubbed down our asset management strategy and they looked at our asset data and I think they gave us a very strong endorsement out of that process.

So I was encouraged to hear both Angela and Roger say that we are a straightforward company. We have worked very hard on the asset management team to make sure that everything we want to do is underpinned by real engineering data, that the programme that we put forward is cost-effective, the arcarius(?) exercise, and that it will deliver a real benefit and reduced risk and improved reliability on the system for the consumer.

JONATHAN BREARLEY: I hand back to Akshay.

AKSHAY KAUL: Paul, please go ahead. We can hear you. Perhaps, while we're waiting for Paul to get his sound in, let's turn to Stephen Henderson on finance. Stephen, do you want to ask any finance-related questions?

STEPHEN HENDERSON: Good morning, everyone. Just a quick thumbs up that you can hear me? Thank you. Just one question from me. We've talked about the consistent levels of outperformance seen across lots of different industries, lots of different regulatory regimes, and across time, and we note that in some of the reports that we received as part of our responses to the consultation, that that was largely attributed to information asymmetry. As Roger noted, a lot of people said that an outperformance wedge is perhaps not the best way to deal with it, and that's your view, but we would like to have your views on what would be the best way to deal with this consistent level of outperformance. What should the appropriate policy be?

FRANK MITCHELL: Thanks, Stephen. Hopefully, a couple of comments before I maybe hand it over to Scott again to make a comment. Let me be clear. In T1, we didn't know how we were going to deliver and outperform before we started, so we weren't sitting there with information that we weren't sharing with the Regulator, but we were incentivised that make sure we drove hard through efficiencies and innovation. Indeed, what we were very clear on, we were making sure that this wasn't through any windfall gain, through any policy change at a UK government level, or indeed through not achieving our outputs. We wanted to stand up to the contract we delivered but the incentives of efficiencies and innovation for us to outperform where we could and that was shared with the consumer. We thought it was a good thing to share with the consumer. We thought it was a good incentive, a sharing mechanism, which would benefit the company and benefit the consumer. We believe that is a good incentive that drives our outperformance by companies.

I think the bit I would say that within that context is we're not sitting here with a stack of known plans that we're going to put into a T2 plan that's going to outperform even more. All we know is we are taking all the innovation and outperformance lessons we learned in T1 lessons and we've already built them into

T2. So we know how to come up with even more innovation, even more incentives, through incentive mechanisms. Actually, it will hopefully drive outperformance in T2 that then can be captured in T3.

So I think it's really important that we don't lose sight of the long-term benefit this means for consumers but perhaps I can ask Stephanie or Scott to comment on their thoughts on this.

SCOTT MATHIESON: Stephen, maybe just to pick up some of the themes that Frank highlighted, innovation is an incentive mechanism where there has been a real benefit. Frank highlighted that we've driven 9.5 per cent efficiencies into our base business plan. A large driver of that was through taking the innovations that we were able to develop through that scheme and building them into the projects that were going forward. A classic example would be digital substation technology which we build in a substation in Wishaw in South Lanarkshire in Scotland, and we were then able to take forward into three to four substations across the T2 period and beyond, and it provides real benefits. It reduces the footprint that you need for the substation, it reduces the amount of metal, it is good from a biodiversity perspective, gives us more visibility, it's modern technology and gives us more visibility of the network.

We also don't see dramatic outperformance from the incentive package in T1 in reality as well when actually look at the various mechanisms but we have earnestly, again, tried to do what we said we would and be a straightforward company. We also sought to develop a thing called the Green Economy Fund which was a scheme whereby we as a company put £20 million back into our local communities. We focused on three areas, training for the net zero transition, making sure that colleges were ready to bring people through who would be connecting electric vehicles, would be connecting electric heat systems, and developing opportunities within the communities that we served. We looked at small community related businesses who would be delivering those types of technologies and we invested in those. That included everything from community transport schemes in the areas that we serve through to electric bike schemes as well. We're going through a huge transition and the more that we can all learn and contribute back to the community, the better.

So I think there is real power in incentives. We saw in distribution, for example, the quality of service incentive mechanism allowed the businesses to improve customer service by 40 per cent since it was introduced. That's huge and our customers get better, more reliable supplies as a result of those incentives. So I think the thing that we would say is don't underestimate the power of the incentive to deliver real benefits for consumers, but we fully recognise that it has got to be balanced, there has got to be a consumer benefit and, equally, we are keen, as we have done through the Green Economy Fund which has been replicated in T2 through our net zero scheme, to make sure that we play a role in supporting communities outwith their business go through this transition too.

FRANK MITCHELL: The only thing I would add to that, Stephen, is a recent sort of initiative by Ofgem, and I think it's really positive in this area, is the annual audit by their engineering teams coming to see what has actually going on in the assets out there in the field. I think that should be done. I think that is a really key part of making sure that companies are staying to their word and are actually delivering real inefficiency and innovation, rather than descoping and not doing what they said they were going to do. So I think that's a really key part of the insight that Ofgem can get and also that should maybe be looked at in the context of forecast of outperformance and maybe picking off a bit more of an audit for the companies who are showing extraordinary underspends, maybe part of how they can manage that position for consumers and ultimately, if it's not evidenced properly, they can then claw that back.

AKSHAY KAUL: Thank you, Frank. Jonathan, I think you had a follow-up on that one. Please go ahead.

JONATHAN BREARLEY: Sure. I guess my follow-up is the following, which is I think when we've had these sessions, many companies have highlighted the efficiencies they've made in RIIO-1, the solid reasons for outperformance, and I guess where that leaves me when I think about the future is do we all collectively agree we should be ambitious from the outset on the efficiencies we can achieve in RIIO-2 because of all the unknown things we did in the last price control?

FRANK MITCHELL: Jonathan, a couple of thoughts on that. I think an eight-year price review gives a long time to actually drive through innovation and efficiency that a five-year price review does not allow. I also think that the ambition is there but, ultimately, we need to make sure that it is put in the context of being able to do that in a way where it balances the risk of innovation and efficiency in the context of what we are trying to achieve overall for both consumers and for the companies.

So, from our point of view, I think we're already being ambitious. We are, as I said, the only transmission company who has come in with a baseline plan less than our T1 run rate. The way we've done that is because we built in the innovation captured in T1 into T2. I believe we are being ambitious because we want to make sure that we can deliver that plan clearly for consumers and be measured against it annually and also share the innovation where it's necessary with the rest of the industry to help that wider consumer group. So I think we're already being ambitious in what we're putting into T2 and what we're actually practising in our business plan.

JONATHAN BREARLEY: Thanks, Frank. Back to you, Akshay.

AKSHAY KAUL: Thank you, Jonathan and Frank. I'm going to take a couple of related questions from stakeholders now. Dave Kennedy and Stew Horne from Citizens Advice ask firstly, Frank, does Scottish Power feel that you have the right balance between investing in new assets and looking after your existing equipment in your net zero proposals? The related question from Stew from Citizens Advice is that your reliability targets that were put forward for the three transmission

companies have a very wide range for improvement from 21 per cent on the one hand to 45 per cent on the other. Can Scottish Power explain why their consumers should have a different improvement level compared to that of other transmission companies?

FRANK MITCHELL: Thanks, Akshay. So let me first of all deal with the first question. We would like to think we have excellence in our asset management approach and that gives us the benefit to make sure that we can balance that asset risk in a very measured and sensible way. It makes sure we're not overspending on assets but at the same time protecting the asset condition and making sure we protect the reliability of the network.

That was, I think, also evidenced through the audit of our asset management approach and we have international standards on asset management already. So we take pride in the quality of our asset management that strikes the balance on risk and investment that we think best protects the consumers. Maybe I will ask Craig to comment on some examples of that.

The other area about the energy not supplied, I would ask Stephanie to make a few comments on that, if I can pass on to Stephanie just now.

STEPHANIE ANDERSON: Thank you for your question, Stew. I think it's a very logical question to ask, why should our targets be different to other TOs?

I think, first of all, what we would say is none of our networks are like for like so we're always going to be starting from a different base point. In T1, we had some of the best performance. In fact, it was a 75 per cent improvement compared to the previous price control which demonstrates the value of the incentive and ENS. I think logically going forward there will inevitably be some differences. However, I think it's a good cross-check for Ofgem to look at what these differences in percentages are but, that said, there will inevitably always be the differences, given the different starting points we all have.

FRANK MITCHELL: I wonder whether Craig can comment some examples of where we have taken the decision on refurbishment rather than replace to get that balance right.

CRAIG McTAGGART: Thanks, Frank, and thanks for the question. We 've got lots of examples in our business plan and I think, as Frank mentioned, Ofgem have been quite complimentary about the way we've approached this. We put a huge amount of effort into making sure that we had the most up-to-date and most reliable asset condition data and we've evidenced that through work on cost benefit analysis and the work on the monetised risk framework that goes along to support that.

For example, as Frank says, that has allowed us to target investment in transformers. For example, we are only replacing a third as many in T2 as we are planning or we have completed in real T1. That's as a result of our very targeted and very detailed condition assessment programme and engineering design exercise,

just to ensure that we get that right balance between risk for consumers and for the network.

AKSHAY KAUL: Thank you, Craig, Stephanie and Frank. I'm going to take another question from stakeholders, from Terry Spesova(?), asking what impact do you think the recent announcement of 40 GW of offshore wind and the general ambition on renewable energy to have in the T2 period on the Scottish Power network?

If I can just add a related question there, what changes, if any, do you think need to be made to the uncertainty mechanism architecture for RIIO-2 in order to accommodate this ambition?

FRANK MITCHELL: *(pause – inaudible)* Sorry. I dropped off.

AKSHAY KAUL: Frank, I'll repeat the question. Can you hear me?

FRANK MITCHELL: Yes.

AKSHAY KAUL: Okay. Good. So it's Terry Spesova asking what impact do you expect the recent announcement of 40 GW of offshore wind and the general ambition on renewable energy from the government to have on the Scottish Power transmission network in the T2 period and what specific changes, if any, do you think are required in the architecture for uncertainty mechanisms for final determinations to accommodate this ambition?

FRANK MITCHELL: Thanks for the question. I guess it's very current because, indeed, that's a discussion you and I and Jonathan were having just last night about the scale of what's in front of us and how we make sure we design the uncertainty mechanisms in a way between us that both protects the consumer but also allows this investment to flow in a timely manner. That's a huge challenge. Let's not underestimate what that means, 40 GW by 2030. That means a huge increase in potential generation link to connect over the next five years. As I've said, we already have 5,000 MW of generation looking to connect and we have only put 900 into our baseline. So uncertainty mechanisms are really critical for us to get right and that's an ongoing discussion we're having.

I think the point that was made earlier on, the importance of being agile in this area, and annually looking at what's going on rather than doing it every two or three years is going to be key because I think one thing's for sure, to help the green recovery there's only going to be more ambition to do more renewables and to do more that needs to stay connected to the transmission network.

Perhaps I'll maybe ask Scott if he has any other comment on that.

SCOTT MATHIESON: No, Frank. I think we touched on it earlier and that was definitely at the heart of Jonathan's question as well. There's tremendous importance in both the large and medium-sized incentive mechanisms and I think

there's concrete progress being made between Akshay's teams and the transmission owner teams in trying to get that to work properly.

FRANK MITCHELL: It does speak to how critical it is to get that right. I think one of the things that we discussed as well between us is we'll have the final determination in December but we have to have an ability to flex, and we think that can be improved in future years as well, the uncertainty mechanism. So we need a framework that puts in what we need to have in December but also a framework that perhaps, if there's lessons learnt in year 1, we can flex that in year 2 to improve it for everybody as well. I think we have discussed that flexibility, the climate within that uncertainty mechanism as well. I think it's going to be key to be agile.

AKSHAY KAUL: Very good. Thank you, Frank and Scott. I think we're nearly out of time so I'm going to hand over now to our CEO, Jonathan Brearley, for some closing remarks. Jonathan, please go ahead.

JONATHAN BREARLEY: Thanks, Akshay. First of all, as ever, thank you to everybody involved in this, particularly to the Scottish Power team, both to the stakeholder and Challenge Groups, to all of you who have attended the sessions, and of course to the Ofgem team for all the preparation and the hard work that's gone into this.

Equally, I do want to say thank you to everyone involved for the hard work that has gone into the price control overall. There have been huge amounts of work and intensive discussions we've had and I thank everybody for the efforts that they've made. We acknowledge that these price controls are incredibly important for customers but also for the UK economy.

Before I conclude, I would like to reiterate some of the things Martin said upfront. We know these price controls play a critical role in supporting a green recovery and helping the country get to net zero. Equally, I do think there is strong consensus on the direction of travel of these price controls, and that is lower returns, increased efficiency for the companies, but a clear recognition from all of us, including Ofgem, that we will need greater investment to get towards net zero. Equally, I recognise that in the course of the discussion we do differ in the extent of this change.

Since our draft determination, we have received a huge amount more evidence and will actively continue to consider that as we get towards final determination.

Moving on to today's session, I do want to start by just saying thank you to Scottish Power for the work that we've done together and I acknowledge the comments that both the Challenge Panel, the stakeholder group and indeed Akshay made around the quality of the business plan and the engagement.

Equally, I want to emphasise that there is huge consensus over the fact that all of us want to make sure that we get to net zero.

In terms of things where we have to work together, clearly, there is more engineering evidence about volumes and, indeed, costs that have been submitted by Scottish Power and we're working closely together through all of that evidence. I note the comment that the Challenge Panel made in particular about non-load related expenditure.

Equally, there is work for us to do together to shape those net zero reopeners so we, Ofgem, can do our job to make sure that customers' interests are protected and that economic cases are robust, but that that process does not add as a blocker to our ability to make the investment we need to get to net zero. I note the concerns that Scottish Power raised particularly around medium-sized projects.

Finally, there is more we can do together on output delivery incentives, particularly a whole system incentive that Scottish Power have proposed.

Finally, as ever, there will be robust debates. All I would say on returns is that I acknowledge the comments that come from Scottish Power, the User Group, the Challenge Group, and I won't add to what Akshay laid out at the start.

Finally, of course, there is a lot to work through in terms of engineering evidence to make sure we get to the right place in December.

For everybody here, there is an online feedback service so, following this meeting, you will receive a link. Please do tell us what you think of these. These are an experiment. It's the first time that we have done these as a Regulator and we are keen to understand how they have gone.

Equally, we have been recording today's sessions and transcript of our meetings will be available on the website at the end of this open meeting series.

Finally, all it remains for me to do is to say thank you to everyone involved for coming to these meetings, thank you to everyone for the hard work that has been put in the price control, and I look forward to continuing our discussions as we get towards final determinations.

With that, I'll bring this meeting to a close.