Scottish & Southern Electricity Networks

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REFORM IN RIIO: TRANSPARENCY

A CONSULTATION ON A TRANSPARENT REPORTING PACKAGE FOR REGULATED ENERGY NETWORKS

A foreword from Citizens Advice

Stew Horne, Head of Energy Networks and Systems, Citizens Advice

If you've ever switched on a light, turned on the heating or boiled a kettle in Great Britain, then you've (almost certainly) used an energy network. These energy networks are the companies that own and maintain the wires and pipes that transport electricity and gas to our homes and businesses.

If you've ever paid a typical energy bill, then you've paid money to an energy network company. Ofgem estimates[1] that around 20% of your energy bills go directly to these monopoly network companies, amounting to hundreds of pounds a year per household. Now, given that paying energy bills means paying money directly to these networks, it is - for most people in Great Britain - an unavoidable payment.

Energy is an essential service, and as the statutory representative for energy consumers in Great Britain, we at Citizens Advice firmly believe that people should know where their money is going.

This is the basis of a principle we designed earlier this year with a group of consumer representative organisations. Together, we developed a total of five principles[2] to test Ofgem's progress in delivering better consumer protection and value for money in RIIO-2, and the principles gained support from MPs across the political spectrum.

The fourth of these principles, fundamentally, is that companies should be required to fully explain what they are doing with consumers' money. This, at a minimum, means energy networks being completely transparent about their sometimes complicated ownership structures and financial risks - as well how well they are performing (i.e. the service consumers receive). This level of openness has not been required to date - and Ofgem need to change this ahead of RIIO-2. Increasing the transparency of these essential monopoly companies will help to ensure consumers are getting value for money.

We welcome SSEN's willingness to engage with this issue. We believe their involvement will enrich the debate and ultimately lead to better outcomes for consumers. Exactly how we reach those transparency outcomes is currently an open question, and SSEN's views on this issue are a valuable contribution, even where they differ from our own.

We strongly encourage other energy networks to do the same and show they're serious about delivering an efficient and fair service for their consumers.

Stew Horne

[1]https://www.ofgem.gov.uk/network-regulation-riio-model/how-energy-networks-work-you

[2]https://wearecitizensadvice.org.uk/will-ofgems-next-price-control-really-deliver-for-consumers-e9f01c034e35

The Citizens Advic e RIIO-2 principles

TRANSPARENCY

Companies are required to publish complete information on their performance, nancial structures, gearing and ownership.

Increasing transparency in a monopoly essential service will help to ensure that consumers are getting value for money. At present, Regulatory Accounts don't provide a complete picture of how firms are operating under the RIIO framework. These should change to include the impact of different capital structures, financial outperformance, derivative portfolios and how returns differ from the regulator's assumptions.

FAIR RETURNS #1

Pro ts are lower than the previous price control, to more accurately re ect the relative low risk for investors in this sector.

FAIR RETURNS #2

The value of any unspent funding for infrastructure projects is returned to consumers promptly and in full.

CONSUMER ENGAGEMENT

Industry business plans and regulatory decisions are directly informed by consumer (including future consumer) feedback and research.

INNOVATION

Innovation funding and incentives support consumers in the transition to a low-carbon future, particularly those consumers in vulnerable circumstances.

Being open is good for business

Introduction from Gregor Alexander, Chairman, SSEN

When it comes to transparency, society expects more from business than it has ever has. Opaque ownership models, tax avoidance schemes and complex financial structures are being questioned and the obligations on corporate reporting - be it on supply chains, gender, pay or diversity - are increasing in line with public opinion.

In my view, this is absolutely a good thing. Not just for customers and society, but also for businesses and their shareholders. Well-run and responsible companies should have nothing to fear, and everything to gain, from greater scrutiny of their financial structures, activities or performance.

Greater transparency can also be a genuine value add to a business, helping to raise standards, focus activity and broaden horizons. Our experience in implementing the Fair Tax Mark - as we sought to be completely open about our tax structures and practices - was a rewarding journey, giving us benefits way beyond a 'badge of honour'.

For regulated utilities, there is a further dimension. The nature of our business - delivering a lifeline service - places additional expectations on us. It is right that consumers know how network companies - that they help fund - are operating, performing and behaving, and that they are doing so in the public interest.

Looking ahead to RIIO-2, I believe greater openness is now an essential part of the contract between a consumer and their network operator.

We must take the opportunity that RIIO-2 provides to create a model that allows consumers to have visibility and clarity of the way we do business. This means going further than we are already, listening to a wide range of views and, importantly, shining a light on areas where we know there is work still to do.

I welcome the contribution of Citizens Advice in helping to diagnose the issue and I hope we can help contribute to the solution. Your views on our proposals are appreciated.

Gregor Alexander

About the Reform in RIIO series

As a regulated business with interests across Electricity Transmission and Distribution, Scottish and Southern Electricity Networks (SSEN) seeks to play an active role in the RIIO-2 process helping the regulator, Ofgem, shape a price control that fully delivers for consumers, industry and society.

In Reform in RIIO, SSEN has worked with the statutory consumer consultee for the RIIO price control, Citizens Advice, to review its five RIIO-2 principles, using them as a starting point for a series of publications to explore these key challenges. Over four publications, SSEN will propose areas of potential reform to help inform plans and encourage debate across a wide range of stakeholders.

This first publication looks at the issue of Transparency and seeks stakeholder views on a package for potential adoption in the RIIO-2 price control. The next paper, on Fair Returns, will be published in February with publications on Consumer Engagement and Innovation following later this year.

SSEN welcomes all views on the important issues raised by Citizens Advice in its principles. To contribute to the debate, or other topics for the RIIO-2 price controls, contact us at **stakeholder.engagement@sse.com.**

Transparency in reporting

This first consultation paper in the Reform in RIIO series considers principle four – "Companies are required to publish complete information on their performance, financial structures, gearing and ownership" and sets out a framework for how licensees might meet and exceed this requirement.

SSEN agrees with Citizens Advice that there is a strong desire from customers and stakeholders for transparency in the activities and performance of energy networks. This was evident at SSEN's March 2018 workshop (footnote 1) which considered SSEN Transmission's reporting of Key Performance Indicators. Stakeholders at the event highlighted that reporting should be customer (rather than regulator) driven, be clear and accessible, and be broad in scope encompassing Corporate Social Responsibility. Similar views are reported by other network licensees (footnote 2).

Given the complex nature of the price control process, providing a clear and easy-to-understand view of the performance of regulated businesses can often be a difficult task. Current reporting obligations, including those mandated by Ofgem, tend to be technical in nature and can require an existing detailed knowledge of the energy industry, its regulations and the region in which the network licensee operates. Ofgem's recent work in this area is welcome, but its RIIO Accounts activity has focused exclusively on financial performance.

Consumers and investors are increasingly demanding a wider and deeper insight into how businesses operate and perform. Thus a focus on reporting financial or regulatory outcomes is, arguably, too narrow an outlook.

In SSEN's view, the principle of transparency of financial structures and business performance that is accessible to all stakeholders is a minimum expectation for network businesses. Licensees can, and should, go further to show that their activities and actions are serving the public interest.

This means widening the scope to include performance against key societal measures and packaging it in a way that is accessible to stakeholders and consumers alike. Using clear comparators and plain language will help consumers and investors fully understand and assess performance and behaviours.

Working towards common standards

An important aspect of transparency is to engage with independent bodies that set and monitor standards of performance for UK and global companies.

Achieving the Fair Tax Mark

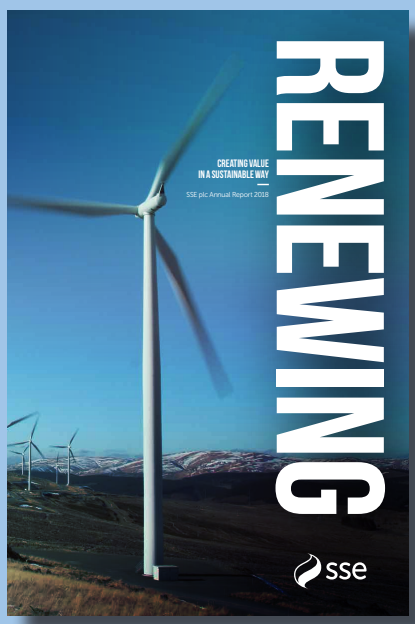
In SSEN's experience, for example with achieving Fair Tax Mark accreditation, working towards these common standards is a means to adopt global best practice in performance and reporting, and engenders trust with our stakeholders in the outcomes. As part of the SSE Group, SSEN has achieved the Fair Tax Mark for the fifth consecutive year in 2018 – independent accreditation that it pays the right amount of tax, in the right place, at the right time.

Meeting high standards of corporate governance

As part of the SSE plc Group, listed on the London Stock Exchange, SSEN is committed to ensuring that the high standards of corporate governance which are embedded within the organisation are maintained. This includes reporting against The UK Corporate Governance Code, which is issued by the Financial Reporting Council (FRC) and is available on their website.

"Companies do not exist in isolation. Successful and sustainable businesses underpin our economy and society by providing employment and creating prosperity. To succeed in the long-term, directors and the companies they lead need to build and maintain successful relationships with a wide range of stakeholders. These relationships will be successful and enduring if they are based on respect, trust and mutual benefit. Accordingly, a company's culture should promote integrity and openness, value diversity and be responsive to the views of shareholders and wider stakeholders."
- The UK Corporate Governance Code, July 2018

SSE's commitment to corporate governance and reporting was recognised at the ICSA Awards 2018, run by ICSA: The Governance Institute, with awards for both 'Annual Report of the Year (FTSE 100)' and 'Board Disclosure of the Year'.



Footnote 1: https://www.ssen-transmission.co.uk/talk-to-us/consultation-reports

Footnote 2: See for example National Grid's November 2018 T2 Reporting Webinar: http://yourenergyfuture.nationalgrid.com/electricity-transmission/get-involved/