

# How SSEN Transmission earn our income

As a natural monopoly, we are closely regulated by the GB energy regulator, Ofgem, who sets how much revenue we are allowed to earn for constructing, maintaining and renovating the transmission network in the north of Scotland. Similar conditions apply to the other two GB Transmission Operators (TOs), Scottish Power Transmission (South of Scotland) and National Grid Transmission (England & Wales)

Each Transmission Operator costs are shared between all those using the GB transmission system, including electricity generators and electricity consumers.

## Who decides how much we can charge customers?

Our regulator Ofgem sets how much money we invest, what return we make on this investment and how these costs are recovered from users of the electricity transmission system. This is generally determined as part of fixed 'Price Control' periods.

We invest in critical national infrastructure and the costs of this investment are recovered over time, currently over the next 45 years. Due to the extent of investment, we are undertaking and to help cash flow and our balance sheet, we receive some allowances to recover our investment costs in the year of spend.

The current Price Control is known as RIIO-T2 and runs from April 2021 – March 2026. We are now working with stakeholders to prepare our proposed Business Plan for the next Price Control period April 2026 – March 2031. This is currently due to be published in December 2024.

## What happens when new projects are agreed with Ofgem out-with the Price Control negotiation period?

Additional investment projects which are identified as required by GB energy consumers during a five-year price control period are governed by 're-opener' rules. In RIIO-T2 this is referred to as the Uncertainty Mechanism. The Accelerated Strategic Transmission Investment or 'ASTI' projects were not anticipated when the RIIO-T2 price control was decided, and there are now additional framework terms in place with Ofgem for those.

## What sort of conditions are agreed as part of a Price Control Period?

As part of the Price Control, Ofgem set key financial parameters and the outputs we need to meet for our investments—which include which new projects and

maintenance is required in our network area, and how these projects are to be financed. These financial parameters include notional limits on the level of debt we are allowed to borrow, the interest rate recoverable on this, the return on equity to shareholders who have invested in the business; and the allowed return (nominal profit). There are also incentives and penalties to encourage efficient delivery and continued improvement, along with conditions where the majority of any efficient underspend is returned to consumers.

## How much do Transmission Operators charge GB domestic customers?

In FY2024, GB domestic electricity customers paid around £45 per household per year towards GB Transmission Operators costs, including SSEN Transmission. Looking ahead and taking into account current known development proposals to help deliver the UK's renewables targets, we expect the Transmission element of domestic customer bills to steadily increase while still remaining a small percentage of the overall bill. The actual amount will be dependent on factors including inflation, supply chain availability and the financial parameters of the next price control period.

This increase in costs will ultimately be offset by the reduction in grid constraint payments consumers will no longer have to pay as the transmission grid increases its capacity. Investing in the electricity transmission network will also enable the connection of low carbon homegrown electricity generation, reducing GB's dependence on and price exposure to volatile and often expensive global wholesale gas markets.

We believe our charges to be good value to society, given the service we provide and the project risks and multiple challenges we manage on behalf of GB consumers.

## How is our income collected?

In simple terms, the permitted spend set by Ofgem, known as Totex (capital investment expenditure and operational expenditure) is processed through a complex financial model, split into an annual charge known as Transmission Use of System Charge (TNUoS) and then billed to the Energy System Operator on a monthly basis. They in turn collect these charges from Electricity Generators and Suppliers (retail energy companies) who ultimately pass these charges through to end users including industrial, commercial and domestic users.

## How much dividend do we pay to our shareholders?

In the last five years, SSEN Transmission has not contributed to the payment of dividends to SSE plc shareholders and our earnings are reinvested to help fund our substantial—and growing—investment programme. This will see us invest at least £20 billion in essential electricity transmission infrastructure across the north of Scotland over the next seven years and beyond to help the country deliver Net Zero.

While the SSE plc group pay a dividend to SSE plc shareholders in return for their investment, this is currently funded by other parts of the SSE Group.

## How much profit do we make?

Last year (FY2024) SSEN Transmission's earnings before we paid tax and interest were £565m. During the same period, we invested around £794m in capital expenditure to grow and maintain our network which covers over a quarter of the UK's land mass, crossing some of its most challenging terrain. While our profits are expected to continue to grow, this reflects the increasing size of our network and the recovery of invested capital we are required to fund in advance on behalf of UK consumers. At the same time, our actual profit margin is lower than during the previous control period, reflecting changing economic and regulatory factors.

## How is our performance measured and evaluated?

Each year we are required to submit extensive reporting to Ofgem known as the Regulatory Report Pack (the RRP) which includes progress on our entire investment portfolio across the price control as well as all our operational activities.

As part of RIIO-T2, Ofgem require detailed cost information on a project-by-project basis which they intend to use to benchmark each Transmission Operator against its peers.

There are Price Control Deliverables specified in our licence conditions which cover the main baseline projects which we can incur penalties against if these are not delivered. Any under or over recovery of charges is also netted off against the following year charges in a continual cycle of adjusting charges to reflect actual performance. This ensures consumers do not pay for items that were not delivered.

For the health of our existing assets, the Network Asset Risk Metric (NARM) has been developed to allow Ofgem to quantify the benefit to consumers of the companies' asset management activities. In RIIO-2, NARM is used as an output to help hold the companies accountable for their investment decisions.

## Who owns SSEN Transmission?

Following a minority stake sale which completed in November 2022, we are now owned 75% by SSE plc and 25% by Ontario Teachers' Pension Plan Board. SSE plc is owned 100% by shareholders who trade on the London Stock exchange, including British and international investment funds, pension funds, private individuals and employees.

SSE plc sold its UK domestic electricity and gas retail business, along with domestic energy services to OVO Energy in January 2020 and no longer manages these customer accounts.

## How do we deliver value for GB energy consumers?

Our work to invest and maintain in critical national electricity network infrastructure is key to helping the country achieve its 2030 offshore wind targets, deliver a pathway to Net Zero and secure the country's future energy independence.

We work with the UK regulator Ofgem whose role is to work with government, industry and consumer groups to deliver a net zero economy at the lowest cost to consumers. Our investment can only go ahead with their approval and we report yearly on our performance.