

RIIO-T2 Draft Determinations

Ofgem - SSEN Transmission - Open Meeting

27 October 2020

THE SSE TEAM



Alistair Phillips-Davies
CEO
SSE plc



Rob McDonald
MD Transmission



Aileen McLeod
Director of Business
Planning and
Commercial
Transmission



Maz Alkirwi
Finance Director
Transmission



Michael Ferguson
Head of Regulation
Transmission

Five years. Five clear goals.

WE AGREE WITH RIIO NET ZERO AMBITION

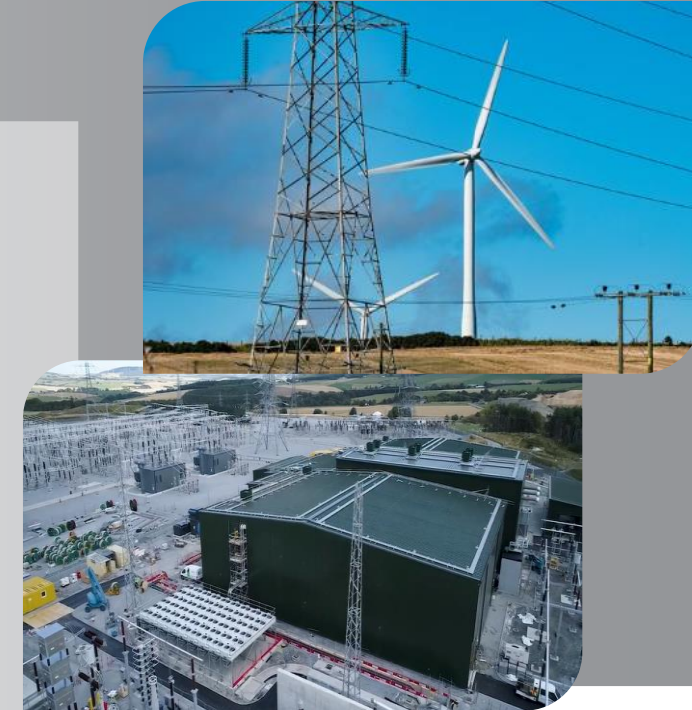
- ✓ **NET ZERO IS A SHARED OBJECTIVE**
- ✓ **ENGAGING WITH AND LISTENING TO STAKEHOLDERS**
- ✓ **LEGITIMACY OF PRICE CONTROL SETTLEMENT IS CRUCIAL**
- ✓ **OUR PLAN DELIVERS THE NETWORK OUR STAKEHOLDERS SEEK AND OUR NATIONS REQUIRE**

Five years. Five clear goals.

OUR TRACK RECORD – DELIVERING AMBITION

We delivered on our RIIO-T1 commitments and much more....

- ✓ Reliability of energy supplied over 99.999612%
- ✓ Increased renewable generation connected to our network by 90% since 2013
- ✓ Track record for on time, under budget delivery of strategic infrastructure and outputs
- ✓ Most efficient operating expenditure in international benchmarks
- ✓ Leading transmission network for stakeholder engagement
- ✓ Leading transmission network for sustainability
- ✓ Global first to accredit science based target for 1.5 degree warming pathway
- ✓ Major economic contributor to the UK and north of Scotland



2030: 10 YEARS TO DELIVER



2020

SOURCE OF NETWORK GROWTH

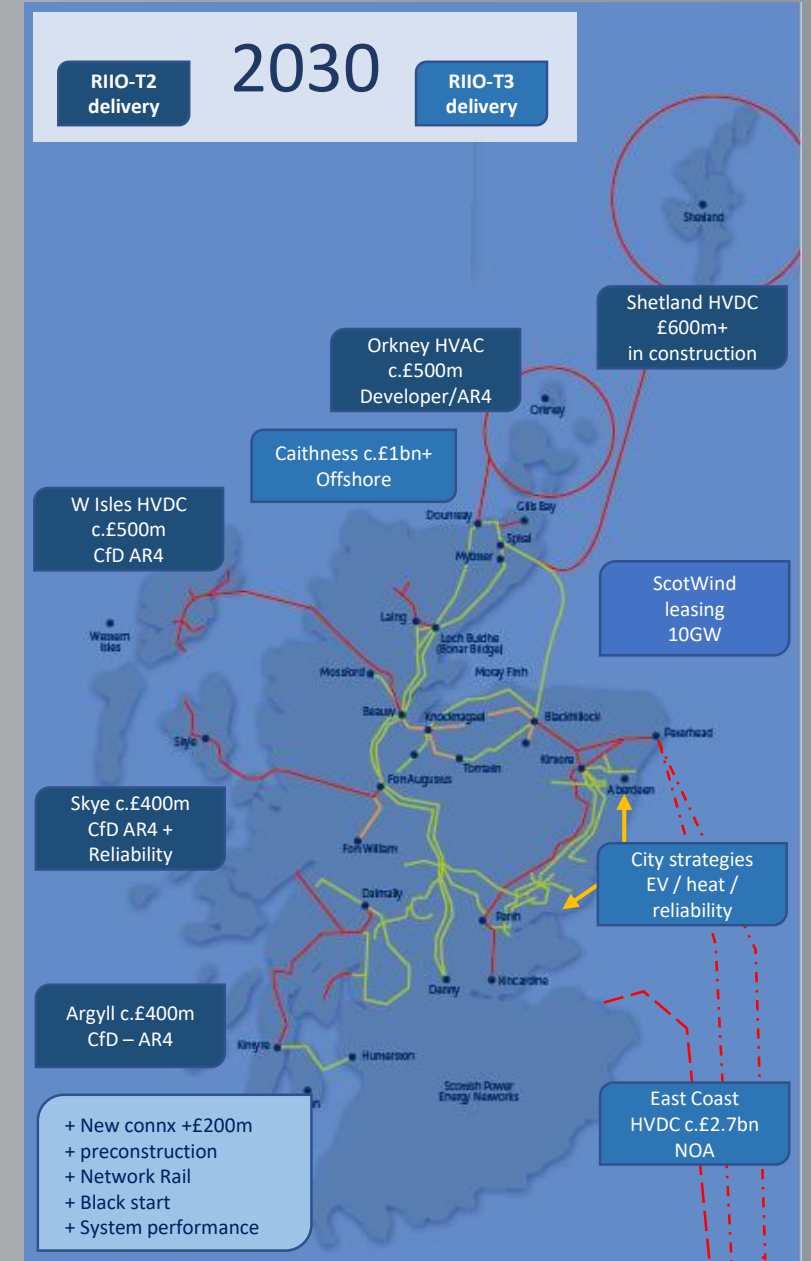
- Scottish Government 2030 targets
- CfD rounds 4 and 5
- ScotWind leasing round - 10GW by c.2030

2020 **8 GW** connected

- + In construction 3 GW (Certain View)
- + CfD AR4/5 1-2.5GW+
- + ScotWind (up to) 10GW
- + Islands 1.5GW+

2030 **22 GW** Net Zero FES*

- + Plus range of investment drivers e.g. Black Start, Rail electrification, City strategies...



*North of Scotland dataset for Leading the Way scenario, FES 2020

OUR RESPONSE TO DRAFT DETERMINATIONS

3 ISSUES HIGHLIGHTED

HEADLINE £800M CUT ON £2.4BN PLAN (33%)
UNJUSTIFIED

OFGEM PLAN DOES NOT DELIVER NET ZERO

PRICE CONTROL SETTLEMENT WILL NOT
ATTRACT REQUIRED INVESTMENT



EVIDENCE
PROVIDED

REMEDIES
IDENTIFIED

UNJUSTIFIED £800M CUT

Correct errors and reinstate unjustified cuts – we cannot jeopardise delivery of Net Zero

£80m+

Preconstruction cuts: development of future net zero network infrastructure

£338m

Network investments cut: reliability and resilience at renewable and Critical National Infrastructure sites

£361m

Basic errors: model errors, provided data not used, allowances omitted

Unjustified efficiency cuts: Ofgem conclusion and data in direct contradiction

£32m

BPI penalty: ✓ Plan requirements ✓ efficient costs = largest penalty

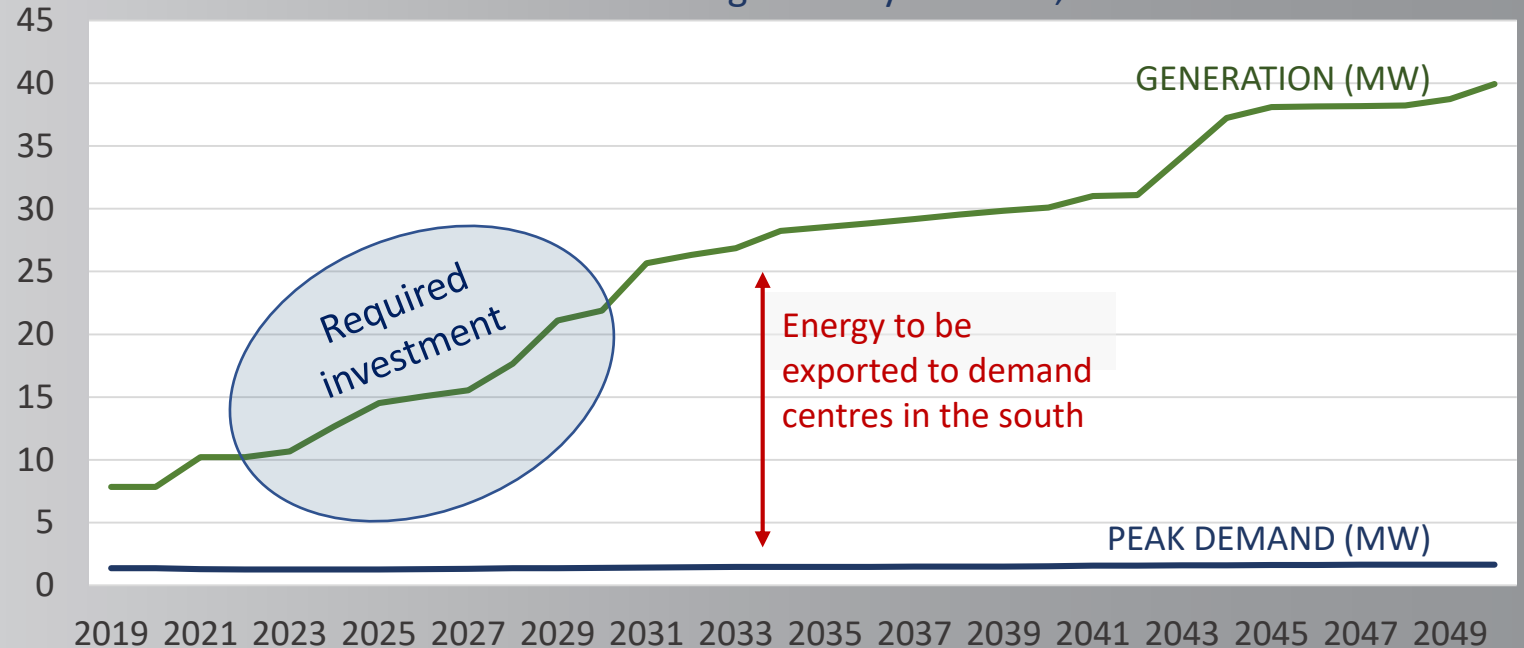
PATHWAY TO NET ZERO

The **need** for net zero investment is real and immediate

✓ We modelled our Plan to deliver this

- Draft determinations **do not** provide a pathway to net zero
- Uncertainty mechanisms are **flawed** in design and proposed execution

North of Scotland dataset for Leading the Way scenario, FES 2020



WHAT IS NEEDED TO DELIVER NET ZERO?

Ofgem needs to encourage timely infrastructure development, fund connections when customers require them, create flexible and agile uncertainty mechanisms – and test these against a pathway to Net Zero

PROVIDE PRECONSTRUCTION THAT ENABLES NET ZERO

- ✓ Fund development of future Net Zero infrastructure
- ✓ Ex-post protection

DEVELOP AGILE UNCERTAINTY MECHANISMS

- ✓ Adopt agility target
- ✓ Any reopener - any time - 6 months
- ✓ Resource for RIIO-2

DESIGN A VOLUME DRIVER THAT COVERS THE COST OF DELIVERING CONNECTIONS

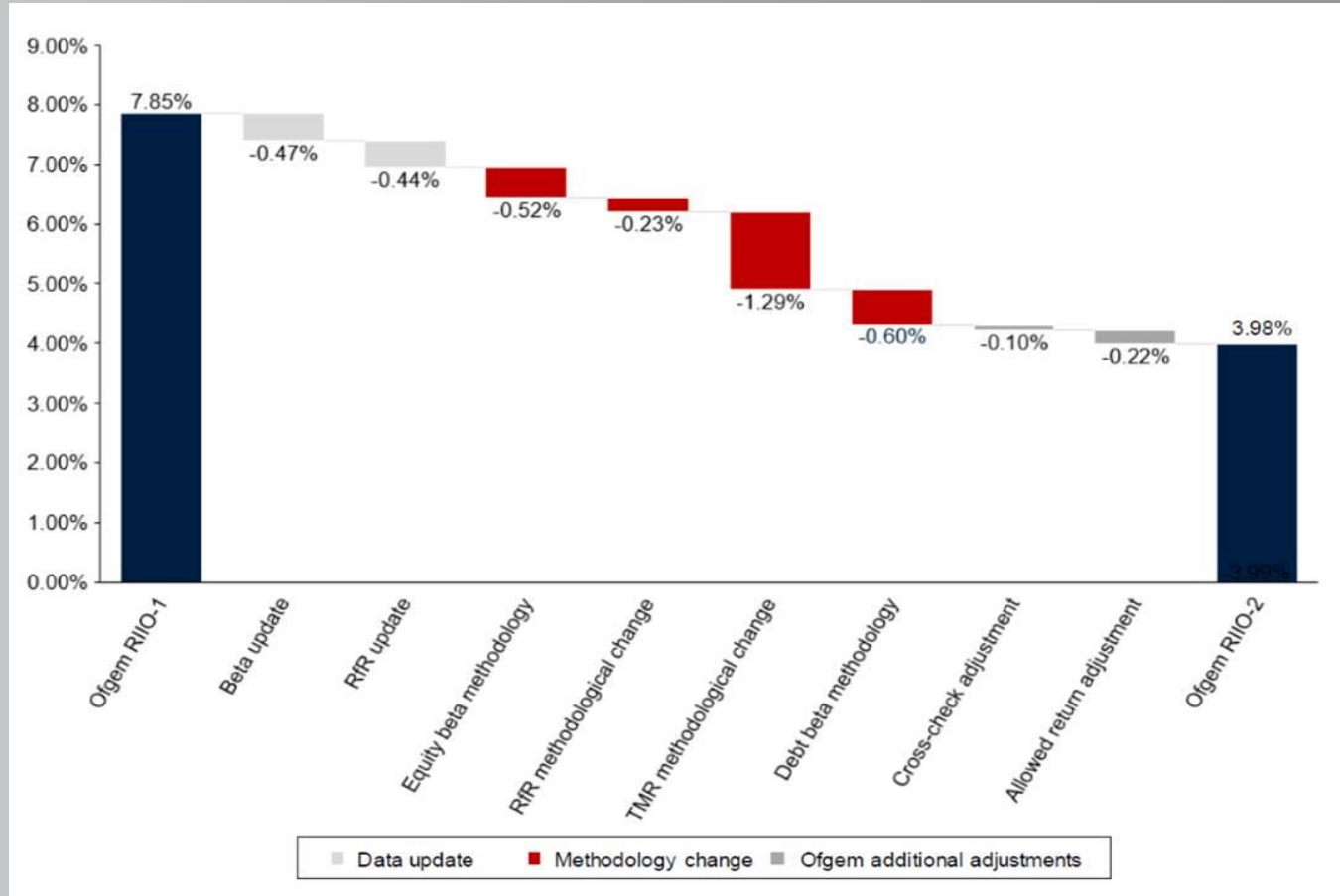
- ✓ Fund network investment at break even levels
- ✓ Support fast customer connections

DEMONSTRATE A FIRM PATHWAY TO NET ZERO

- ✓ Test Final Determinations, can they deliver Net Zero?

ISSUES WITH DRAFT FINANCIAL PACKAGE

- Failure to attract necessary investment in globally competitive market
- Material cost of equity errors - 80% of Ofgem changes methodological, not market data based
- Intergenerational and long term financeability issues
- Errors in financeability assessment



WHAT IS NEEDED

- Set the cost of capital based on available observable evidence
- Do not ignore the impact of getting the cost of capital wrong on society
- Model financeability on realistic and anticipated Net Zero investment scenarios
- Ensure long term financeability is considered
- Avoid intergenerational transfers
- Respond to CMA provisional findings on water: recognise higher risk in energy

Headline Financial package (CPIH)	RIIO-T1	SHE-T RIIO-T2 Business Plan	Ofgem RIIO-T2 DD	Ofgem RIIO-GD2 & GT2 DD	Ofwat – PR19 FD	Ofwat CMA Provisional Findings
Cost of equity	8%	6.5%	3.70%	3.95%	4.19%	5.08%

SUMMARY OF ENGAGEMENT

Systematic engagement on a massive scale to help stakeholders understand the draft determinations



Email to 1270 stakeholders



100+ bilateral discussions

RESULTING IN



50+ responses to Ofgem from our stakeholders

“ By reducing preventative maintenance and stretching the life of key assets, Ofgem must accept responsibility for the likelihood of damaging outages in future. **Community Energy Scotland** ”

“ The Draft Determinations propose a 50% reduction in investor returns and a 20% reduction in the planned network investment programmes despite the potential impact on service quality, jobs and the UK’s Net Zero agenda. Investor sentiment across UK infrastructure has already been negatively affected by Ofwat’s PR19 outcome and we would urge Ofgem to avoid further damage to the UK’s reputation in the eyes of infrastructure investors more broadly. **Global Infrastructure Investor Alliance** ”

“ We have concerns regarding the proposed package of outputs, incentives and uncertainty mechanisms which could delay the ambition to achieve net zero and green economic recovery. In responding to the consultation, we have set out below the key issues that we believe must be addressed ahead of the Final Determinations in December 2020. **Renewable UK** ”

THE WAY AHEAD



ADDRESS ALLOWANCE ISSUES

- CORRECT ERRORS AND ALLOW JUSTIFIED INVESTMENT CASE
- REVERSE BUSINESS PLAN PENALTY, REFLECTING CHANGE IN TOTEX ALLOWANCE

ENABLE DELIVERY OF NET ZERO

- INVEST IN PROJECT DEVELOPMENT WITH PRECONSTRUCTION ALLOWANCE
- MODIFY UNCERTAINTY MECHANISMS TO FACILITATE, NOT HINDER, INVESTMENT

PROVIDE A FAIR RETURN FOR THIS INVESTMENT

- ADOPT EVIDENCE BASED APPROACH TO MODELLING COST OF CAPITAL
- RESPOND TO CLEAR FINDINGS OF CMA