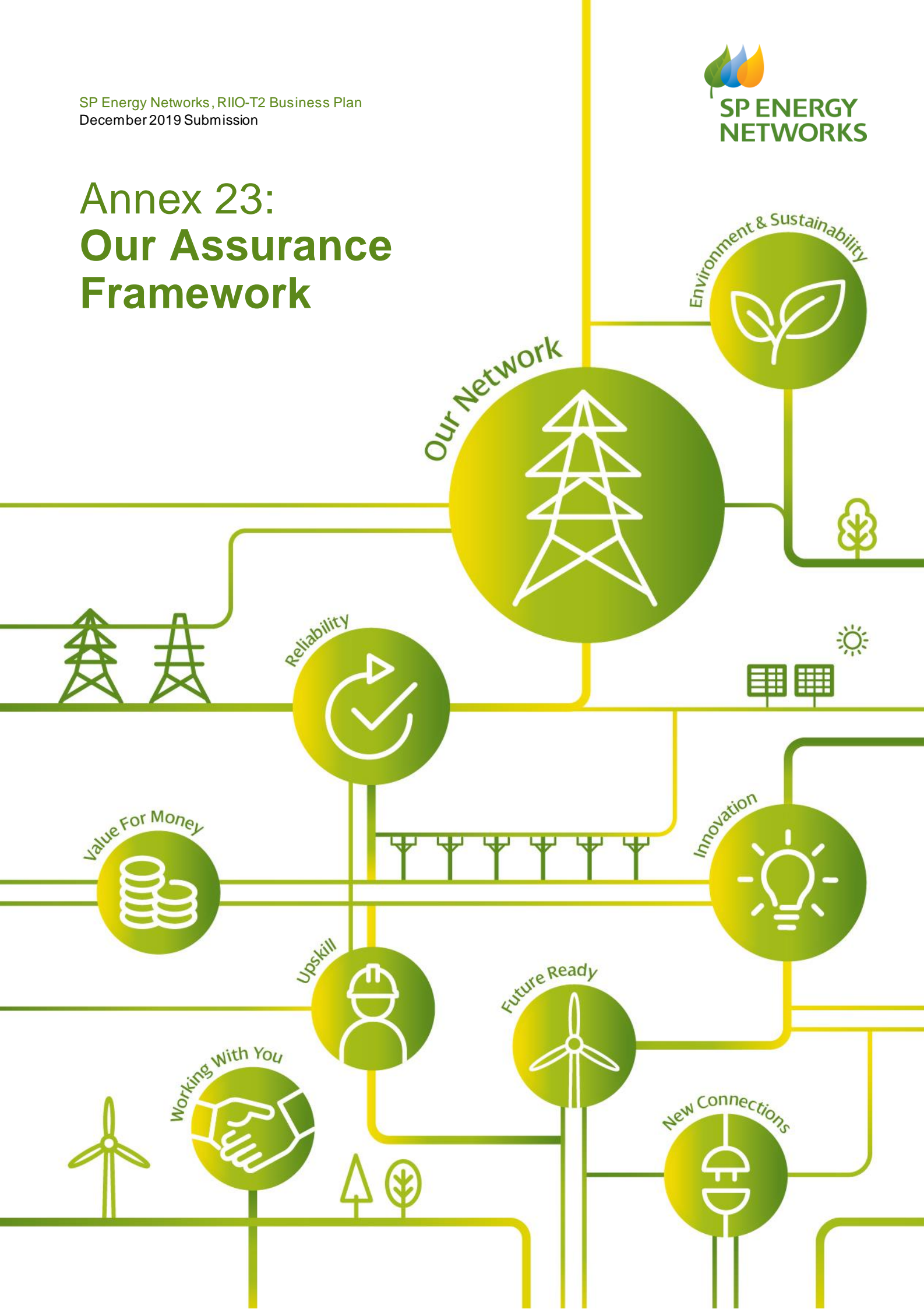


Annex 23: Our Assurance Framework



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2.0 INTRODUCTION

This Annex should be read in conjunction with the “Governance and Assurance” section of our RIIO-T2 business plan. The purpose of the Annex is to provide additional information on our risk-based approach taken to assurance and information on the external parties that have been used to independently assure the information submitted in our business plan. The reports produced by the external parties are included as Appendices for reference.

3.0 A NEW WAY TO ASSESS RISK

We describe in the “Governance and Assurance” chapter of our RIIO-T2 business plan how we have further enhanced our assurance framework by developing a holistic approach to assessing risk, adding a strategic view of business impact by using our Enterprise Risk Reporting methodology.

3.1 Risk Assessment Methodology

To carry out the risk assessments, our business plan was broken down into several key components, referred to as “building blocks”. Each of these building blocks was risk assessed using both the DAG and Enterprise risk reporting methodologies. It was important that the building blocks gave full coverage of the business plan and development process, ensuring that we had fully considered all possible risks. For this reason, we worked with independent external experts Complete Strategy to support us in defining our building blocks; Complete Strategy has extensive experience in regulated industries and gave us confidence that the exercise was completed with a full understanding of the regulatory and political context in which the plan is written. The output of this exercise was 65 defined building blocks, ranging from ensuring that our business plan is built up from robust “needs cases”, with all possible engineering options fully explored, to ensuring that the data in our Business Plan Data Tables has been populated using agreed methodology and is free from mistakes.

The risk assessments that were carried out on the building blocks assessed the combined level of impact and probability against a range of risk perspectives, as shown in Figure 1. Risk scores attained from the assessment were mapped to a score of Low, Medium, High or Critical, which was then used to drive the level of assurance applied, in line with our three lines of defence model. Where there was a disparity between the DAG and Enterprise risk scores, the level of assurance was applied based on the highest score, providing the greatest coverage across the plan.

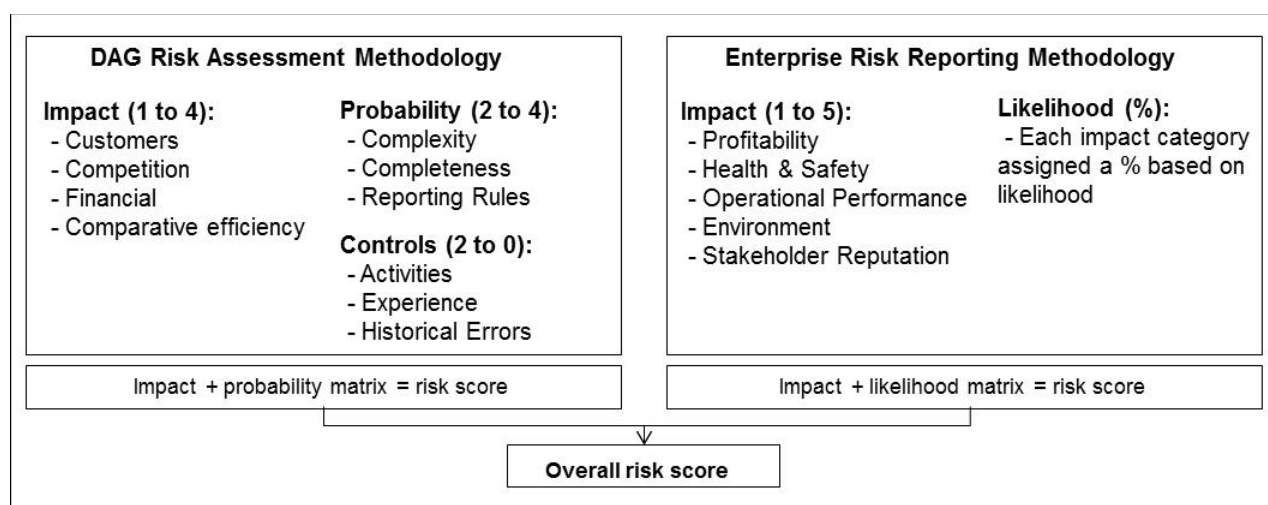


Figure 1 Risk Assessment Methodologies

It was important for us that the risk assessments were carried out independently so that we could be confident that the right level of assurance was provided for each risk identified. Therefore, we worked with Complete Strategy to support us in this.

The output of the risk assessments applied to each building block is detailed in Table 1 below; for clarity, Figure 2 shows how the output of the DAG risk reporting methodology was mapped to a score of Low, Medium, High and Critical.

Table 1 Output of Risk Assessments

BP Segmentation (Building Blocks)	DAG RA	Enterprise RA	Overall Score
Programme			
Business plan programme			Medium
Business Plan			
Legal Compliance			Critical
Cost efficiency strategy			Critical
Overall Business Plan Contents			
Overall strategy & narrative			Critical
Business plan outline			Medium
Business plan chapters			High
Business plan data tables			Critical
Investment Plans			
Socio-economic / growth forecasts			Medium
Application of common asset health methodology			Critical
Non-load related costs			Critical
Major substation schemes: needs cases, optioneering, methodology			Critical
Major substation schemes: solutions & service implications			Critical
Overhead lines: needs cases, optioneering, methodology			Critical
Overhead lines: solutions & service implications			Critical
Transformers: needs cases, optioneering, methodology			High
Transformers: solutions & service implications			High
Cyber resilience: threat assessment, optioneering, methodology			High
Cyber resilience: costs			Medium
Cyber resilience: delivery of NCSC requirements			Medium
Other investment expenditure: needs cases, optioneering, methodology			High
Other investment expenditure: costs			High
Other investment expenditure: solutions & service implications			High
Top-down investment cost assessment			Critical
Load related needs cases,			Critical

optioneering and methodology			
Load related costs			Critical
Load solutions and service implications			Critical
Cost Benefit Analysis			
Changes required to template from ED1			Medium
Information entered into templates			Medium
Opex Plans			
Non-operational IT costs			Medium
Support costs			Medium
Property costs			Low
Operational IT costs			Medium
Asset management related opex			High
Innovation			
Demonstration of how innovation and learning from previous controls has been incorporated into ET2			Medium
Proposals on how to embed innovation in BAU			High
Proposals for innovation priorities			Medium
Stakeholder			
Overall stakeholder engagement strategy			Medium
Research methodology(ies)			Medium
Common WTP research			Medium
Triangulation methodology			High
Incentives – Meet the needs of consumers and network users			
Stakeholder Satisfaction Survey, KPI and EA			High
Timely Connections Output			Medium
Energy Not Supplied (ENS)			High
Incentives – Deliver an environmentally sustainable network			
SF6 and losses reduction strategies			High
Link between business plan and Environmental Action Plan			Medium
Link between business plan and IBE environmental commitments			Medium
Visual amenity impacts of transmission infrastructure			Medium
Incentives – Maintain a safe and resilient network			
Network Access Policy (NAP)			Medium
Successful delivery of large capital investment projects			Medium
Safety			Medium
Uncertainty Mechanisms			
Proposals for non-mandatory UMs			High
Proposals for load-related UMs			High
Ofgem mandatory UMs			Medium
Indexation			
Application of common proposals for indexation / RPEs			Medium
Financial Parameters			
Cost of capital proposals			Critical
Cost of debt proposals			Medium
RAM proposals			Medium

SPEN financial model			High
Scenarios used to test finance-ability			Medium
Reconciliation of SPEN PCFM model to ET2 PCFM model			High
Tax strategy			High
Deliverability			
Deliverability assessment			Critical
Future workforce resilience plans			Medium
Others/Overheads			
Indirect costs			Medium
Pension costs			High

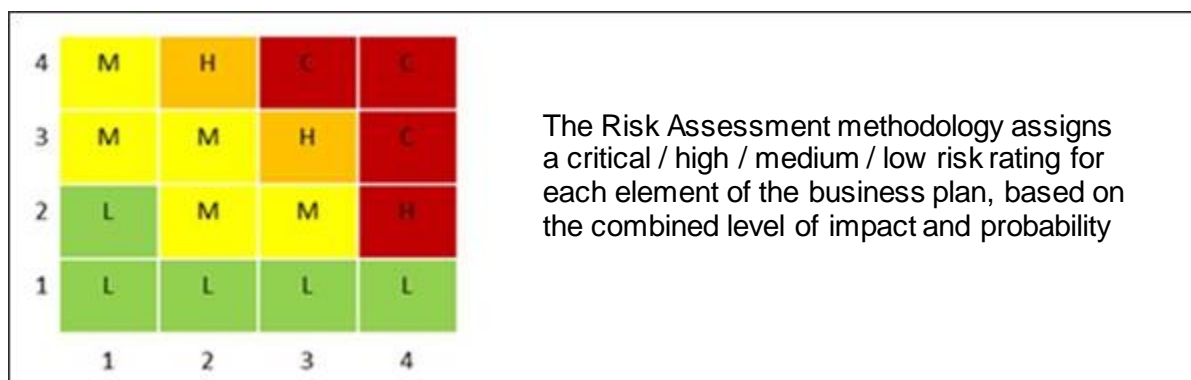


Figure 2 Risk Assessment Methodology

4.0 ASSURANCE ACTIVITIES

All elements of our business plan, independent of risk, are subject to second person and senior manager reviews, in addition to challenge and sign-off by our directorate, CEO and our Board. This is “Business as usual” for us and the fact that we apply this rigorous review and challenge to all aspects is something that we are proud of, once again demonstrating that we understand the importance of an accurate submission in earning the trust of our consumers and stakeholders.

As described in the “Governance and Assurance” chapter of our RIIO-T2 business plan, our assurance activities were deployed based on the risk score; the higher the score, the more extensive the assurance. Therefore, for those elements of our business plan which attained a risk score of high or critical, additional assurance activities were completed. These additional assurance activities were:

- Challenge from independent internal and / or external experts
- Challenge from our internal Assurance team
- ScottishPower Internal Audit team

The external assurance parties who were engaged to challenge our plan are detailed in Appendix A.

It should be noted that we did not limit our external assurance work to only high and critical risks; where we believed that there was opportunity for an external expert to validate our work and therefore increase the confidence of our consumers and stakeholders in the accuracy and robustness of our submission, we made sure that we took it. An example of this is our engagement with Strategy Associates Limited, a leading expert in the production of CBAs, who we approached to review our methodology used. Our CBA building block was assessed to be a medium level risk; however, benefit was still realised from confirming the appropriateness of

our methodology, that our analysis had been carried out in line with the agreed methodology and was free from mistakes.

We also worked with several external independent organisations to support us in the development of a number of areas of our business plan. These are also set out in Appendix A.

We are proud that we have built on an already established assurance framework. This ensures that all areas of our business plan are subject to extensive challenge from a range of independent internal and external experts, based on risk, and everything is underpinned by robust and accurate evidence. As a result, we have been able to give our Board, including our SIDs, the confidence that we have achieved a robust and deliverable business plan that meets the requirements of our consumers, network users and wider stakeholders.

5.0 APPENDICES

- A.1 Appendix A: External Assurance Providers
- A.2 Appendix B: Arcadis – RIIO-ET2: Investment Plan Efficiency Review
- A.3 Appendix C: Complete Strategy - Final Letter
- A.4 Appendix D: Doble – Transformer Asset Health Document Review
- A.5 Appendix E: Elias Ghannoum – Review of SP Energy Networks Report “RIIO-T2 OHL Technical Asset Life and CBRM Condition Rating Methodology”
- A.6 Appendix F: Strategy Associates Limited - Final Letter
- A.7 Appendix G: Ramboll – SPEN RIIO T2 Review and Challenge
- A.8 Appendix H: Sia Partners - Final Letter
- A.9 Appendix I: CBRE - Final Letter
- A.10 Appendix J: Gartner - RIIO Support and Investment Assurance Final Report