



Executive summary

Previous research conducted by Explain found that a majority of electricity consumers in Great Britain (GB) (both in your Transmission licence area and outside it) found your RIIO-T2 Business Plan to be acceptable.

Following challenge around the acceptability of your cost of equity, you wished to specifically explore consumers' views on the role SPEN and your Transmission business have in achieving governmental Net Zero carbon targets, and most importantly, views on which rate of return level they are willing to support in order to sufficiently finance your investment activity – a 2.9% or 3.6% rate of return.

Given the extremely short timeframe to design and deliver the research, an online survey methodology was chosen, to allow for national reach. 276 domestic consumers took part (following data cleansing) and the data was weighted to give us in-patch/out-of-patch and nationally representative results.

This short report outlines the results of the survey.

Results

Awareness

- More respondents in-patch had heard of SPEN (40%) than those out-of-patch (9%) before taking part in the research. 3% of respondents had heard of SP Transmission in and out-of-patch.
 - Out-of-patch, 72% had not heard of either company.
- When looking at the overall nationally representative results, 69% had not heard of SPEN or SP Transmission. 11% had heard of SPEN only and 4% had heard of SP Transmission.

Views on current bill impact

- Respondents were asked to provide their thoughts on the value of £4.38 of the current average annual household electricity bill that goes to SP Transmission. 41% of respondents out-of-patch felt that this amount was 'just right', and 37% in Central and Southern Scotland thought the same.
 - 32% in-patch felt that this was 'too little' and 8% felt that it was 'too much'. Out-of-patch, 13% felt that it was 'too little' and 14% felt that it was 'too much'.
- When looking at the nationally representative results, 40% of respondents felt that this price was 'just right', 14% felt that it was 'too much' and 14% felt that it was 'too little'.

Net Zero

- Following information on your business and governmental goals, respondents were asked whether they agreed that SPEN and your Transmission business have a key role to play in achieving the Net Zero targets. A majority of respondents in-patch (90%) and across Great Britain (85%) agreed that you do.
- When considering the overall nationally representative results, 83% were in agreement that SPEN and your Transmission business have a key role.
 - 3% did not agree and 13% were not sure.

Rate of return – willingness to support

- Following information around how your business is financed and the implications of different rates of return, the final question we asked was *“Based on what you’ve heard, which rate of return level are you most willing to support?”*;
 - 69% of those in-patch were most willing to support a 3.6% rate of return level.
 - 55% of those out-of-patch were willing to support a 3.6% rate of return.
- When looking at the overall nationally representative results, over half (55%) of respondents were most willing to support the higher rate of return of 3.6%.
 - 27% were willing to support a 2.9% rate of return and 18% didn’t know.

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1.0 Introduction

This section of the report outlines the background and objectives of the research alongside the chosen methodology.



Background

By December 1st, SP Energy Networks (SPEN) must submit your final Transmission business plan for the 2021-2026 period to Ofgem. Before this final plan is submitted, it is important for you to understand if your plan is acceptable to consumers.

Explain were commissioned to conduct independent research to understand the extent to which the current draft plan was accepted by consumers. Overall, a majority of both domestic (82%) and business (80%) consumers found your RIIO-T2 draft Business Plan to be acceptable.

Following challenge around the rate of acceptability of your cost of equity, you wished to specifically explore consumers' views on the role SPEN and your Transmission business have in achieving governmental Net Zero carbon targets, and most importantly, views on which rate of return level they are willing to support in order to sufficiently finance your investment activity;

- 2.6% rate of return
- 3.6% rate of return

Methodology

Given the extremely short timeframe to design and deliver the research, an online survey methodology was chosen, to allow for national reach.

An online survey was designed to complement the bespoke digital tool created for the full Willingness to Accept research. The survey incorporated videos to share crucial information - about who you are, your role in the electricity system, background on your Plan and the Net Zero targets set by the UK and Scottish governments – in a more engaging manner, accompanied by supporting visuals and graphics.

The survey was shared with domestic consumers across GB via online panel; following data evaluation and cleaning, we had a sample of 276 participants.

Domestic consumers

- Online panel
- 276 respondents

Notes on analysis

Data cleansing

For validity of the results, the data collected via the online panel was evaluated and cleansed prior to analysis. We removed surveys which were completed in under five minutes as we do not believe that these respondents can have absorbed all the information necessary to understand for this research.

Weighting

Weighting has been applied to the samples in two ways:

1. **To give us ‘in-patch’ and ‘out-of-patch’ results;** here, weighting has been applied to allow for comparison of the results between those who live in your patch and those who live in the rest of GB but will pay for your plan due to nationalised costs.
2. **To give us a nationally representative sample;** here, weighting has been applied to the total sample at a national level, on the following demographic information; age, gender, socioeconomic group and region of residence.

RIM weighting has been used. This method allows for weighting on multiple variables, weighting the sample both up and down so that it matches target quotas - a weighting variable is applied which acts to correct the proportion by reducing or amplifying the affect each area of the sample has and to bring it in line with the proportions of the quotas.

Weighted percentages and base sizes are reported throughout (with the exception of the respondent profile), and the weighting approach is identified in the graphs. Due to the weighting method, the weighted base sizes vary slightly from achieved samples.

2.0 Respondent profile

The profile of respondents engaged in the research can be found in this section.



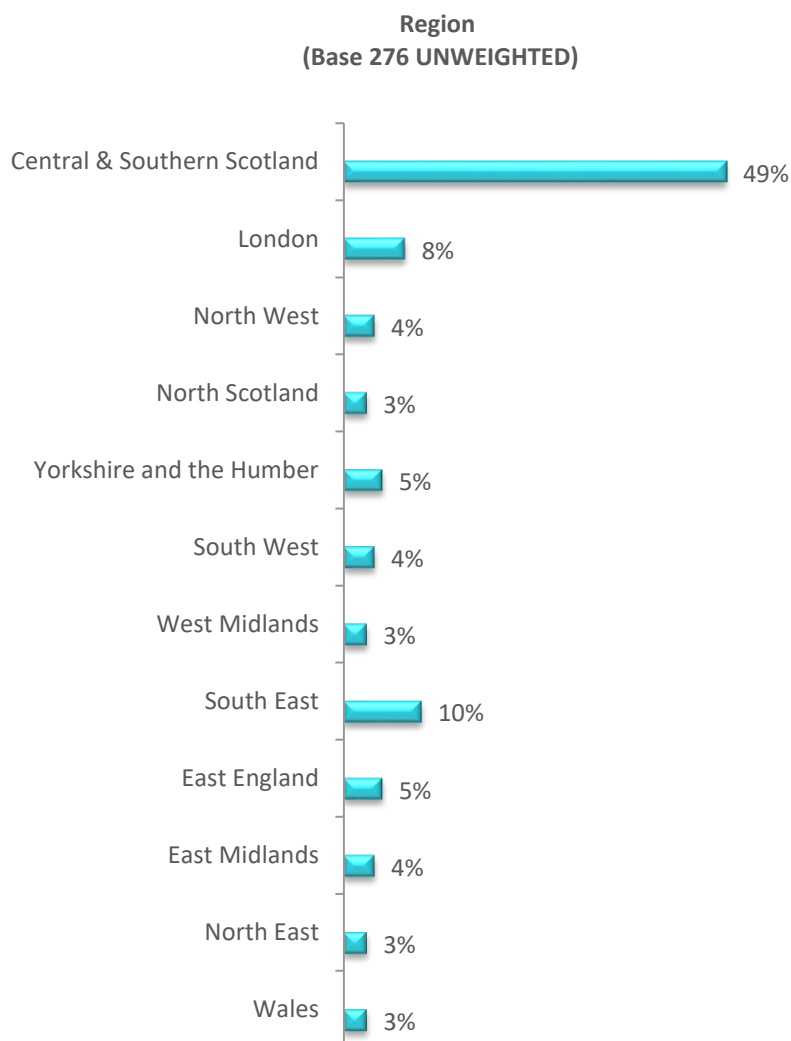
Respondent profile

After cleansing the data, we were left with a sample of 276 respondents. The unweighted sample was made up of;

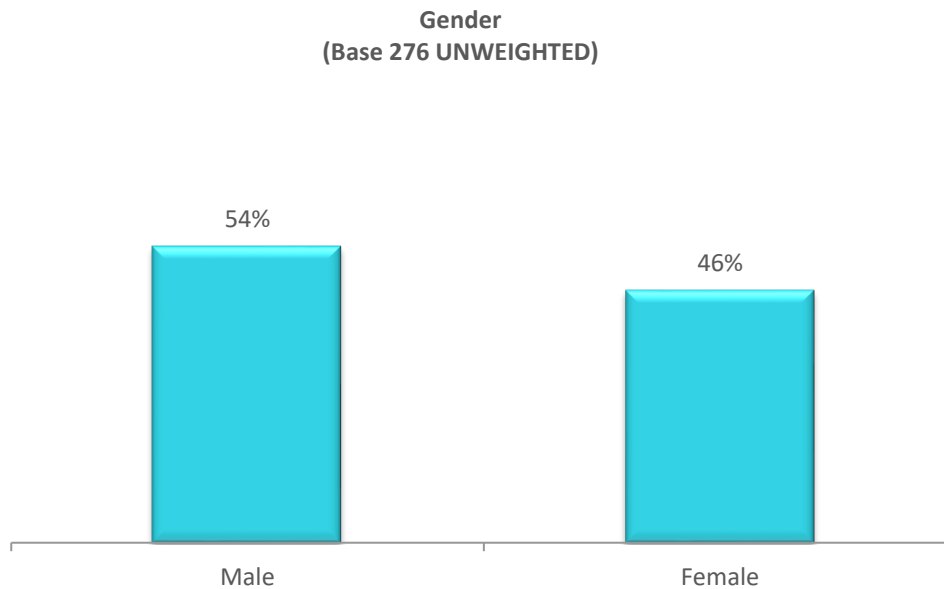
- 135 respondents in Central and Southern Scotland (in-patch)
- 141 respondents outside of Central and Southern Scotland (out-of-patch)

Please note, profiles are presented in this section without weighting, to give you an understanding of the true participation sample.

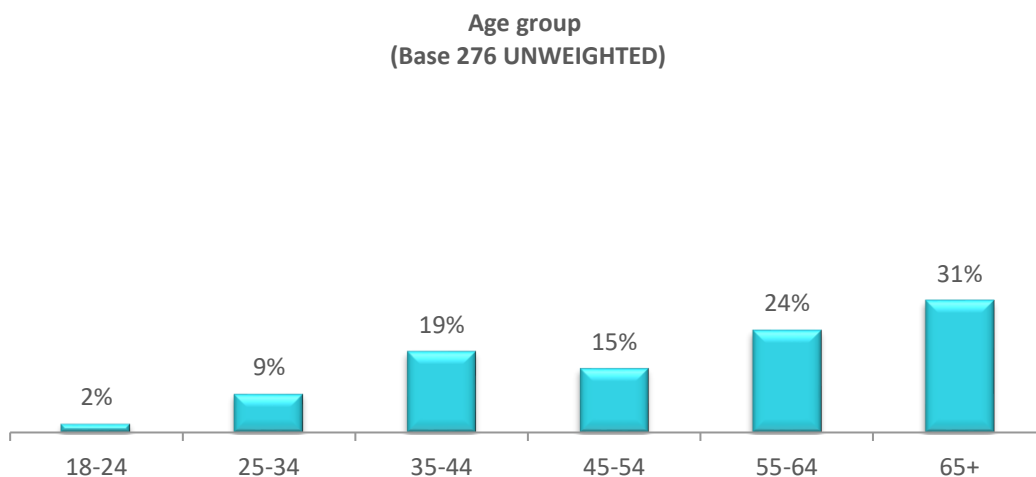
Respondents took part across Great Britain (GB); just less than half lived in your Central and Southern Scotland licence area patch, whilst 52% lived in regions across GB.



More males (54%) than females (46%) took part in the research.

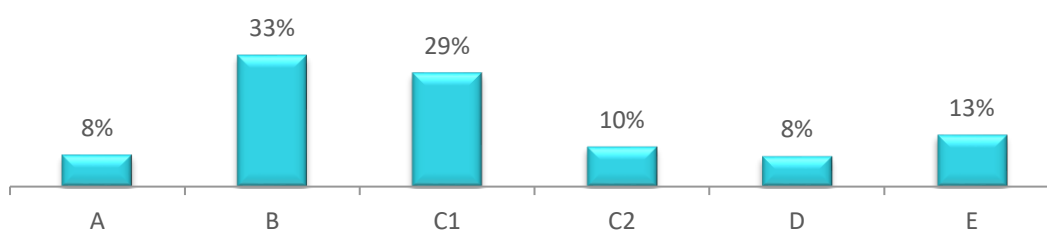


A variety of age groups were engaged, with respondents more likely to be aged 65 or over (31%) or 55-64 (24%).



Again, the socioeconomic groups engaged varied, with respondents more likely to be in socioeconomic group B (33%) or group C1 (29%).

**Socioeconomic group, based on occupation of the main wage earner in the household
(Base 276 UNWEIGHTED)**



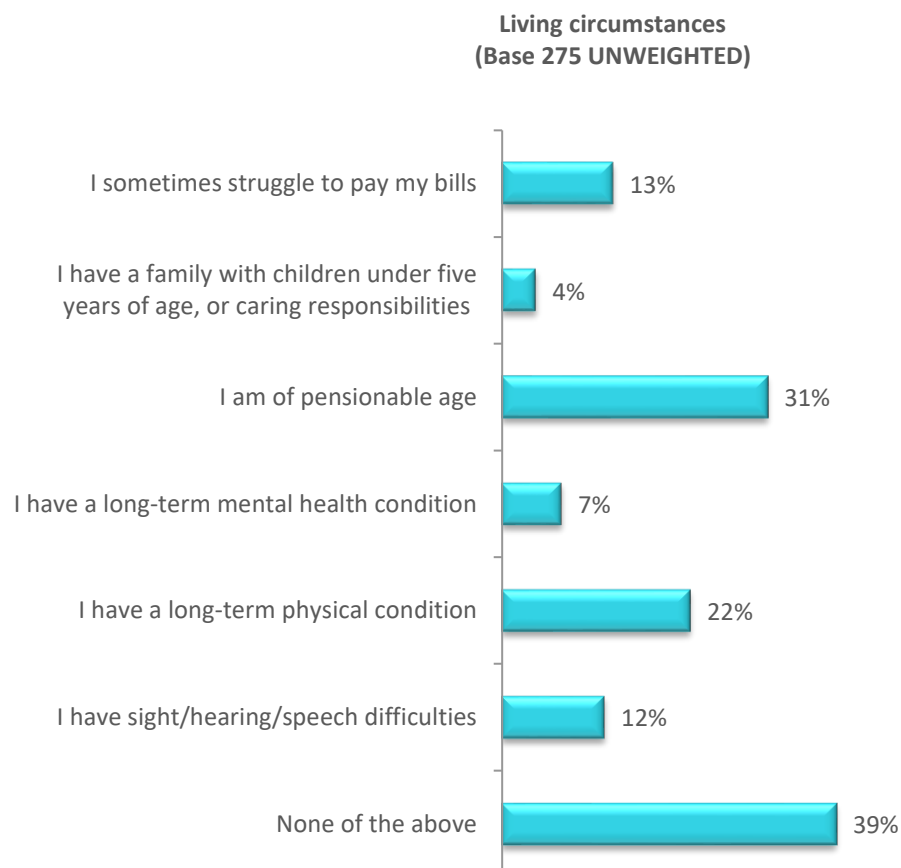
For reference, the following criteria is used to categorise the socioeconomic group (SEG) of respondents.

Group	Definition
A	Higher managerial, administrative, professional e.g. Chief executive, senior civil servant, surgeon
B	Intermediate managerial, administrative, professional e.g. bank manager, teacher
C1	Supervisory, clerical, junior managerial e.g. shop floor supervisor, bank clerk, salesperson <u>or</u> student
C2	Skilled manual workers e.g. electrician, carpenter
D	Semi-skilled and unskilled manual workers e.g. assembly line worker, refuse collector, messenger
E	Casual labourers, pensioners, unemployed e.g. pensioners without private pensions and anyone living on basic benefits

We also sought to understand respondents living circumstances and if respondents were living in circumstances which made them more vulnerable than others. Respondents were asked if they felt whether any of the following circumstances applied to them:

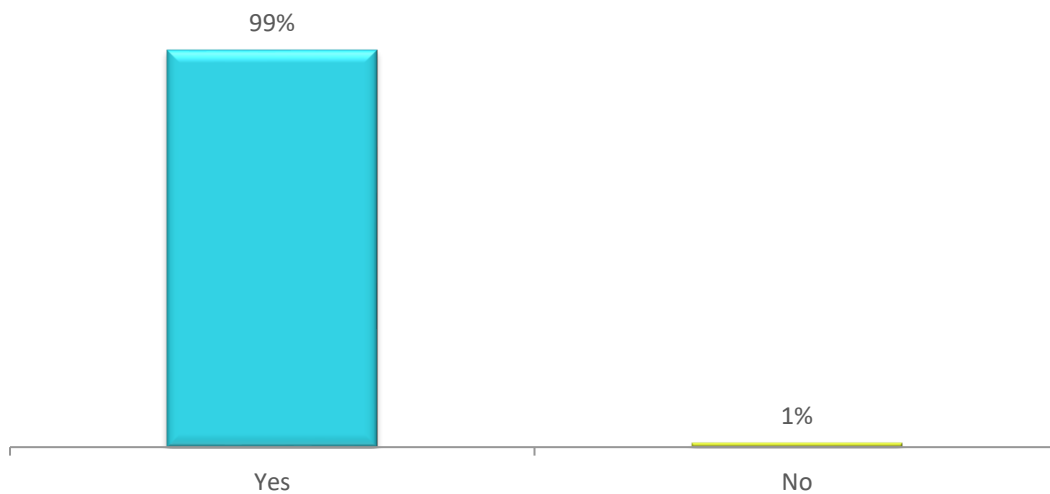
- *I have sight/hearing/speech difficulties*
- *I have a long-term physical health condition*
- *I have a long-term mental health condition*
- *I am of pensionable age*
- *I have a family with children under five years of age, or caring responsibilities*
- *I sometimes struggle to pay my bills*
- *None of the above*

39% of respondents did not consider themselves to be living in any of the circumstances listed. 31% were of a pensionable age and 22% of respondents had a long-term physical health condition. 13% said they sometimes struggle to pay their bills.



Of these, nearly all of respondents engaged in the research were either solely or jointly responsible for paying their household electricity bill, with the exception of two respondents aged 18-24, who can be considered “future customers”.

Are you solely or jointly responsible for paying your household electricity bill?
(Base 276 UNWEIGHTED)



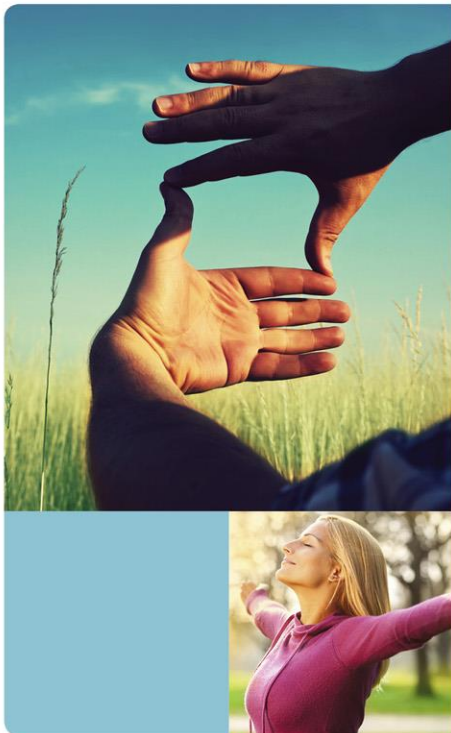
Spread of respondents

The following map displays the postcodes of respondents who completed the survey, with one red pin per respondent. The image demonstrates the spread of participation across Great Britain, with higher participation in Central and Southern Scotland.



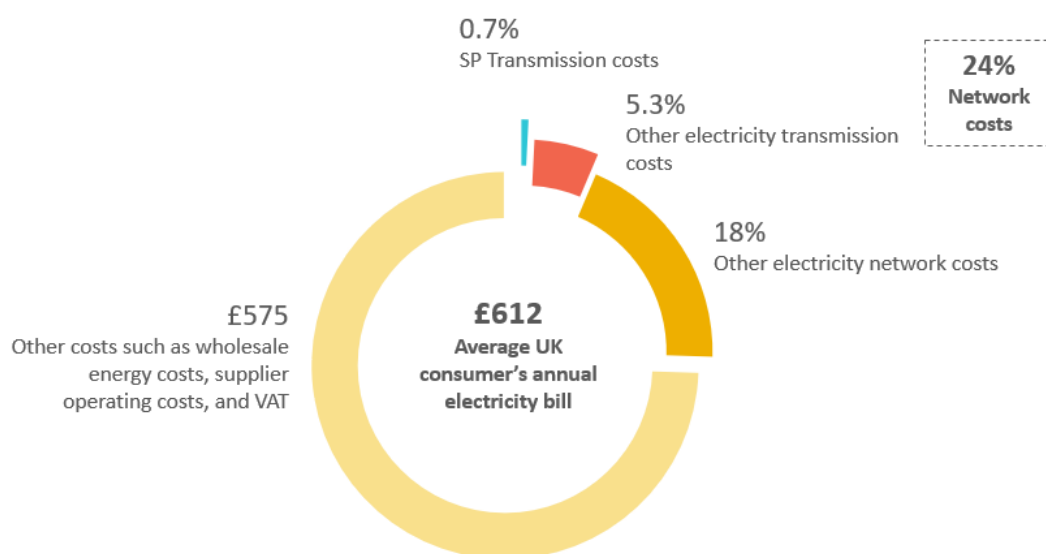
3.0 Results

Findings from this research are detailed in this section.



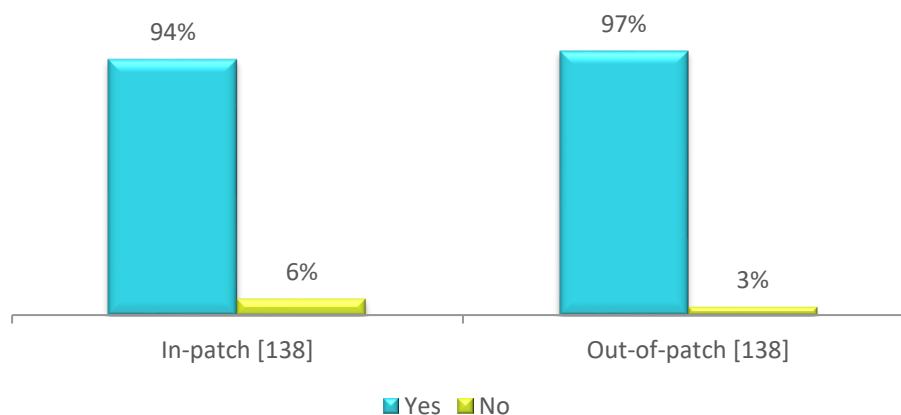
Results

Respondents were first introduced to the aims of the research and were provided information about introduced SP Energy Networks, SP Transmission and your role and responsibilities in a short video. As well as this, respondents were given information on the transmission network and the role of Ofgem as a regulator. Finally, this was brought together in the video by an example of the average UK consumer's annual electricity bill and the below image was shared to demonstrate where different proportions of a customer's bill are spent.



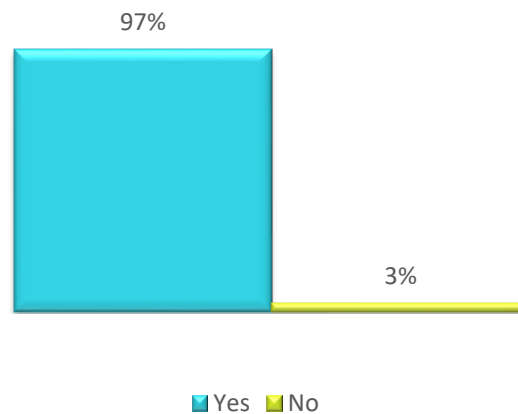
When asked if they had understood all of the information provided so far, most respondents across Great Britain felt that they did (out-of-patch 97% and in-patch 94%).

Do you understand everything you've heard so far?



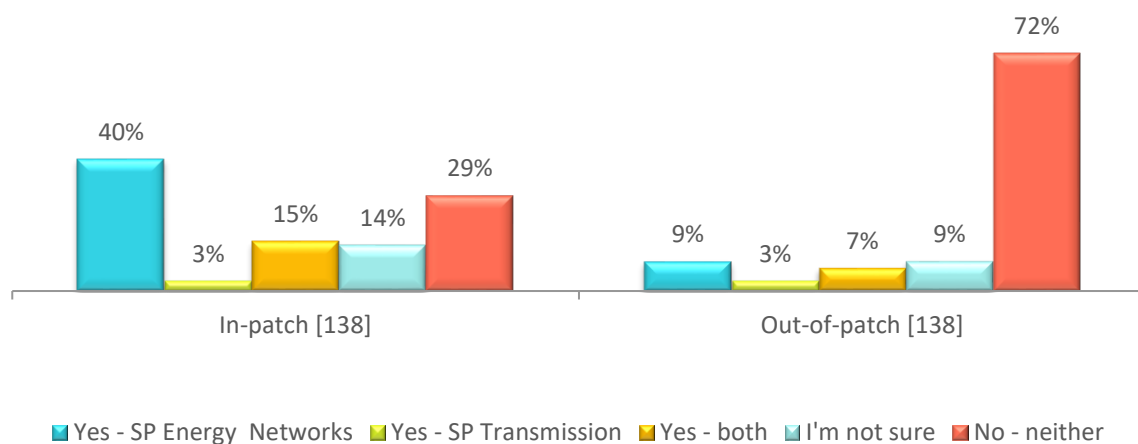
When considering the overall nationally representative results, 97% understood the information that had been provided thus far.

Do you understand everything you've heard so far?
(Base 276 NAT REP)



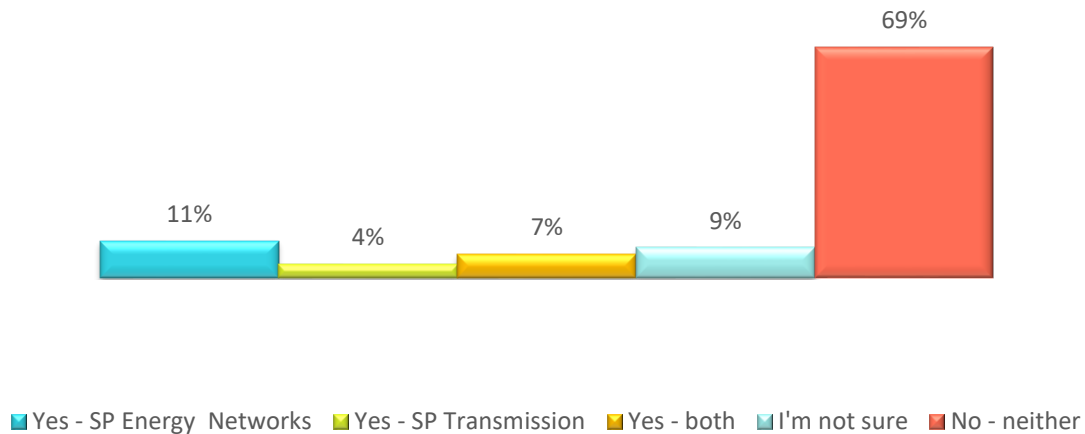
More respondents in-patch had heard of SPEN (40%) than those outside of SPEN's operating area (9%). 3% of respondents had heard of SP Transmission in and out-of-patch. Out-of-patch, 72% had not heard of either organisation.

Have you heard of SP Energy Networks or SP Transmission before taking part in this research?



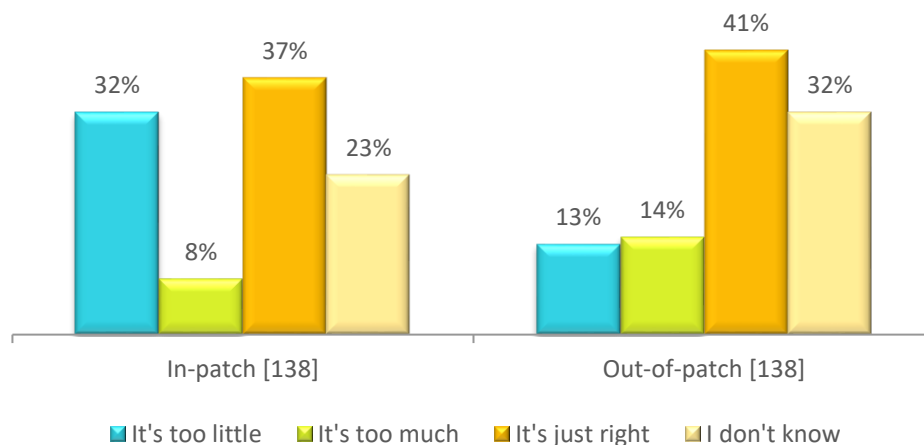
When looking at the overall nationally representative results, 69% had not heard of SPEN or SP Transmission. 11% had heard of SPEN only and 4% had heard of SP Transmission.

Have you heard of SP Energy Networks or SP Transmission before taking part in this research?
(Base 276 NAT REP)



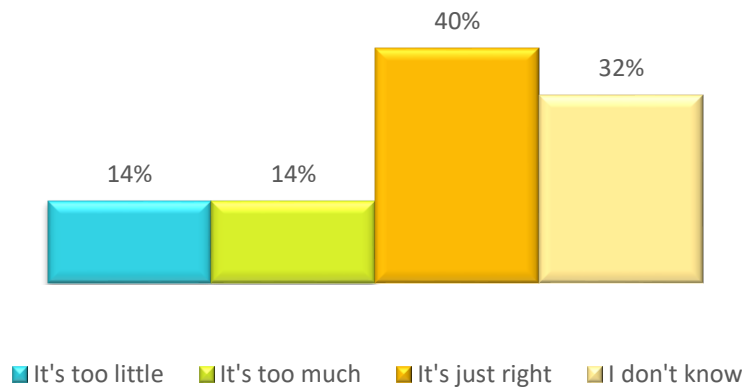
Respondents were asked to provide their thoughts on the value of £4.38 of the current average annual household electricity bill that goes to SP Transmission. 41% of respondents out-of-patch felt that this amount was 'just right', and 37% in Central and Southern Scotland felt the same. In addition, 32% in your patch felt that this was 'too little' and 8% felt that it was 'too much'. Outside of SPEN's patch, 13% felt that it was 'too little' and 14% felt that it was 'too much'.

What do you think of the value of £4.38 of the current average annual household electricity bill going to SP Transmission?



When looking at the same results with overall national representation, 40% of respondents felt that this price was 'just right', 14% felt that it's 'too much' and 14% felt that it was 'too little'.

**What do you think of the value of £4.38 of the current average annual household electricity bill going to SP Transmission?
(Base 276 NAT REP)**



When looking at these results by age, respondents aged 55-64 (53%), 18-24 (52%) and 65 and over (51%) were most likely to consider this value as 'just right'.

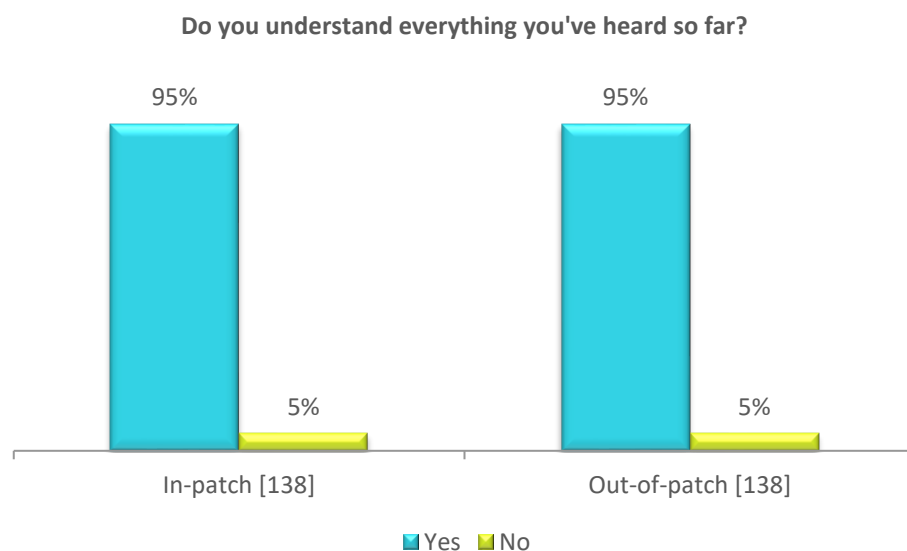
The next video that respondents were shown shared information on SPEN's business plan for 2021-2026, detailing the four goals that SP Transmission have set. Information was shared about how SPEN finance your investment through stakeholders and external leaders.

The considerations that SP Transmission had in mind when developing your business plan were also presented to respondents; including financial uncertainties, political uncertainty and changes in the way that consumers use electricity.

The concept of 'Net Zero' and SPEN's role in achieving targets set out by the government was introduced to respondents and we highlighted that this information was particularly important as investors will be called upon to fund the necessary investment in infrastructure.

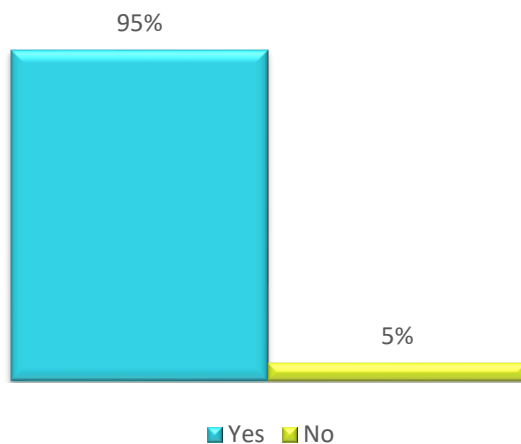
Finally, respondents were shown an overview of information on your business plan and were informed about the acceptability research that Explain previously carried out, which found that over 80% of domestic and business consumers engaged found the plan to be acceptable. We informed respondents that this research was being conducted in order to test some additional elements of the plan with consumers.

At this point, respondents were asked again if they understood all of the information that they had been presented so far. 95% respondents across in and out-of-patch felt that they understood the information provided.



The same results were found for the nationally representative sample.

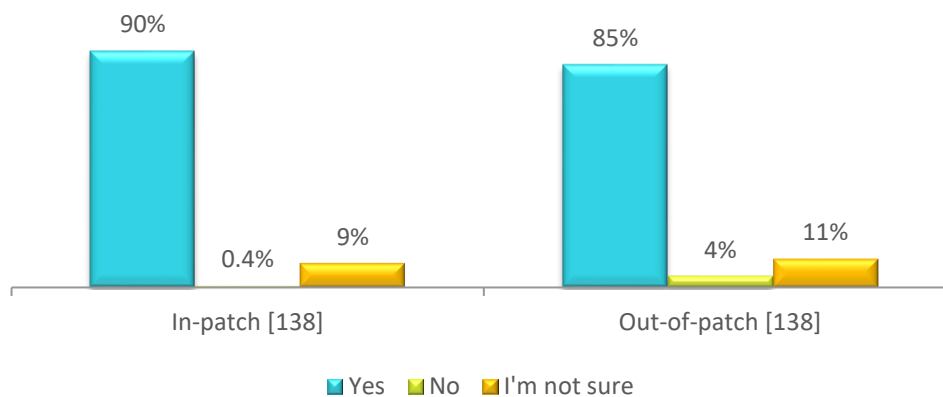
Do you understand everything you've heard so far?
(Base 276 NAT REP)



Net Zero

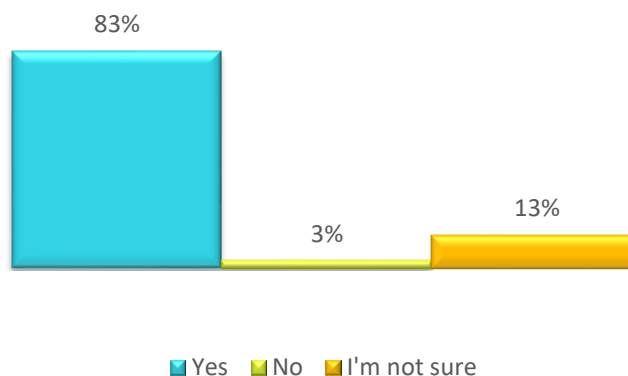
Respondents were asked whether they agreed that SPEN and your Transmission business have a key role to play in achieving the Net Zero carbon emissions targets. A majority of respondents in-patch (90%) and out-of-patch (85%) agreed that you do.

Based on what you know about them, do you agree that SP Energy Networks and their Transmission business have a key role to play in achieving the Net Zero carbon emission targets?



When considering the overall nationally representative results, 83% were in agreement that SPEN and their Transmission business have a key role. 3% did not agree and 13% were not sure.

Based on what you know about them, do you agree that SP Energy Networks and their Transmission business have a key role to play in achieving the Net Zero carbon emission targets?
(Base 276 NAT REP)



Support for rate of return

The final video that was shared with respondents focussed on investment and how this is funded by **shareholders** and the **debt market**. Respondents were informed that to attract sufficient funds, the rate of return to shareholders and debtholders needs to be at a competitive level.

Two options of rate of return were proposed;

- A 2.9% rate of return; or
- A 3.6% rate of return

Information was shared about what each level of return would mean for business plan and governmental targets.

| Option 1: 2.9% rate of return

Based on a 2.9% rate of return:

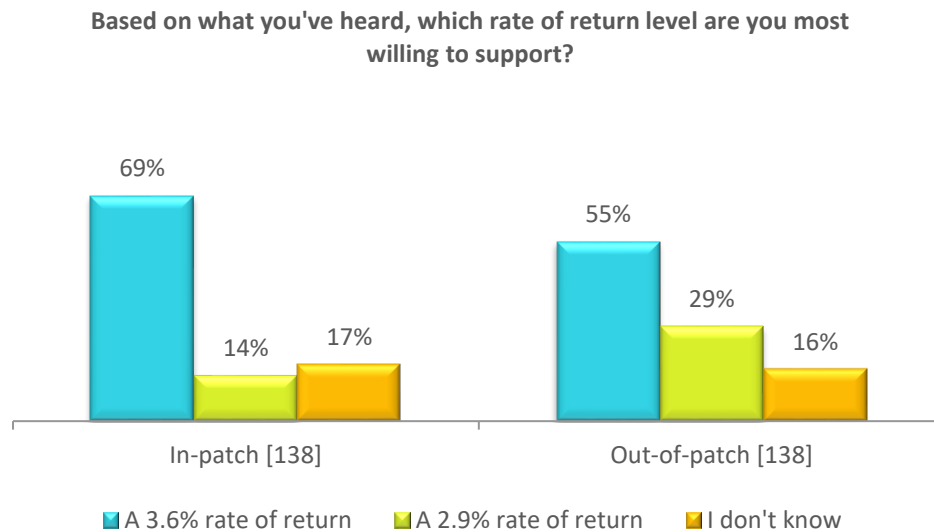
- the cost for SP Transmission to finance its business between 2021 and 2026 at a 2.9% rate of return will be, on average, £1.20 per year per household;
- we will be able to fund our business at the £1.3 billion base level of investment in the network to continue to provide you with a 99.99% reliable supply of electricity;
- at this level of investment, within the period, it is likely we will not make sufficient progress to support the achievement of **governments'** carbon reduction targets; and
- we also may not continue to attract a long term strategic investor with associated engineering capabilities, who is willing to invest in our business for the long term, creating economic stability.

| Option 2: 3.6% rate of return

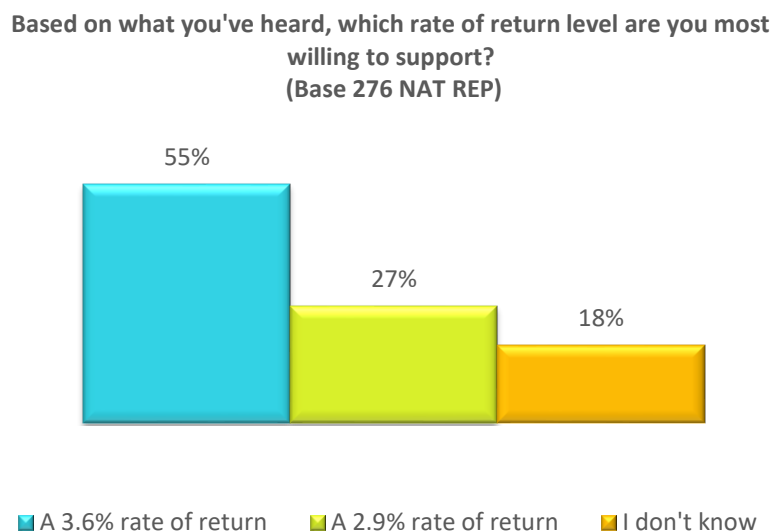
Based on a 3.6% rate of return for shareholders:

- the cost for SP Transmission to finance its business between 2021 and 2026 at a 3.6% rate of return will be, on average, £1.48 per year per household;
- we will be able to attract more investors to fund future investment;
- the increased investment has the potential to facilitate an additional £127m p.a. (£2.90 per customer) of carbon savings, per annum, in perpetuity, in comparison to the investment made at a 2.9% return; and
- it will support the retention of a longer term investor, with engineering capabilities, that will help deliver the investment to achieve the governments' carbon reduction targets.

The final question we asked consumers was “Based on what you’ve heard, which rate of return level are you most willing to support?”; 69% of those in SPEN’s patch were willing to support a 3.6% rate of return level. 55% of those outside of your patch were also willing to support the 3.6% rate of return.



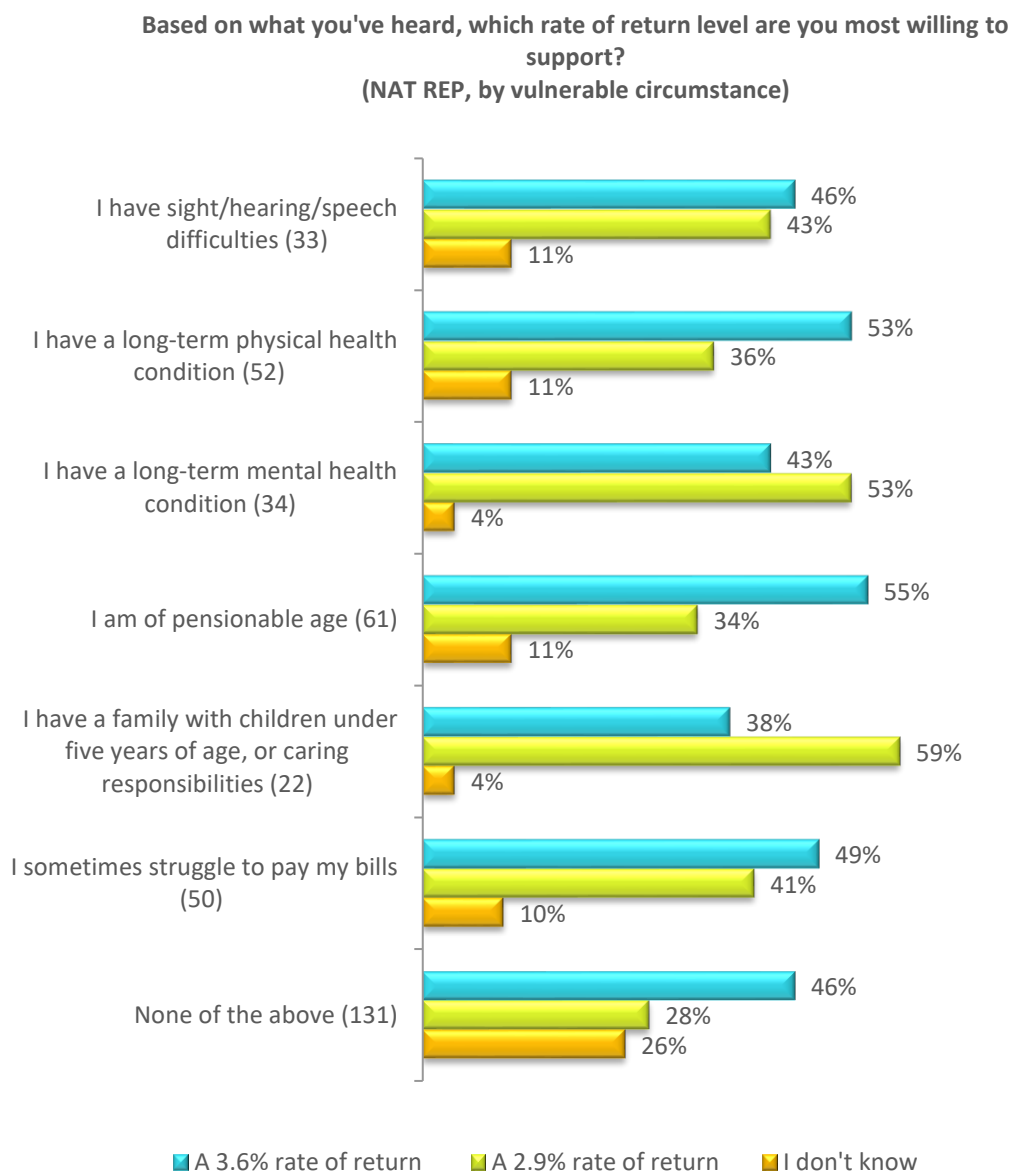
When looking at the overall nationally representative results, over half of respondents (55%) were willing to support the higher rate of return of 3.6%. 27% were willing to support a 2.9% rate of return and 18% were not sure.



Differences between consumer groups

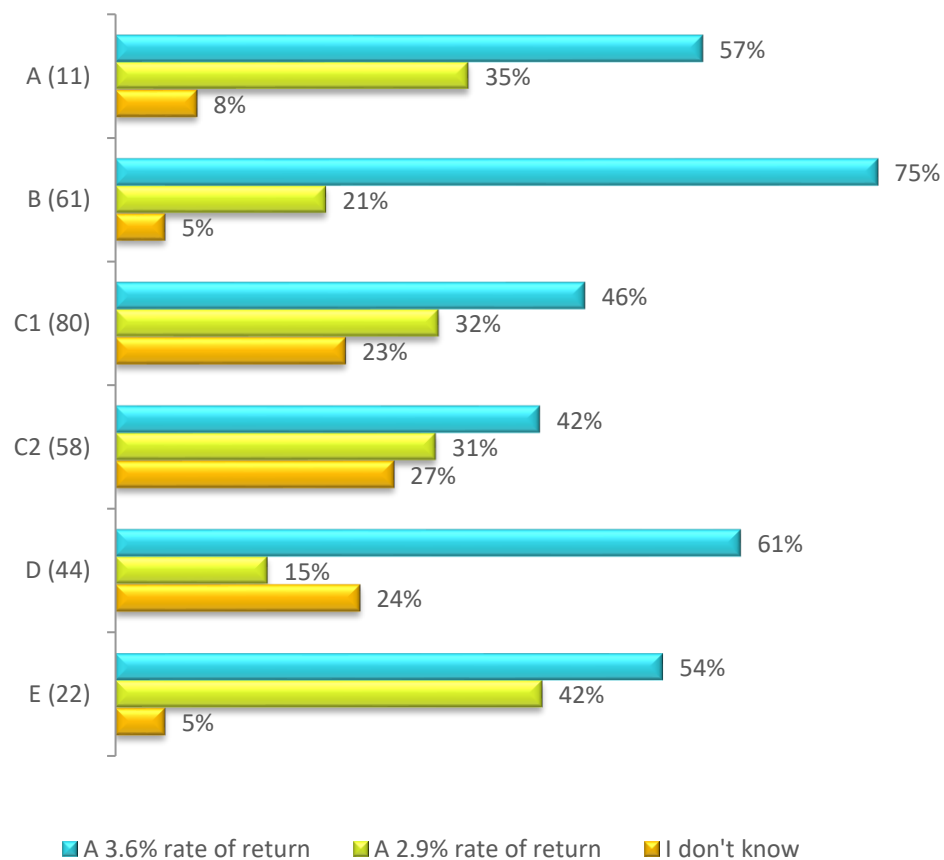
It's important that acceptability of rates of return are considered from the perspective of consumers who are living in more vulnerable circumstances. The graph below shows the willingness to support each rate of return amongst consumers who considered themselves to live in circumstances which can be considered more vulnerable. Respondents who sometimes struggled to pay their bills were split in their support – nearly half (49%) supported the 3.6% rate of return, while 41% were most willing to support the 2.9% rate.

Please note the fluctuating base sizes between each group when comparing results between them.

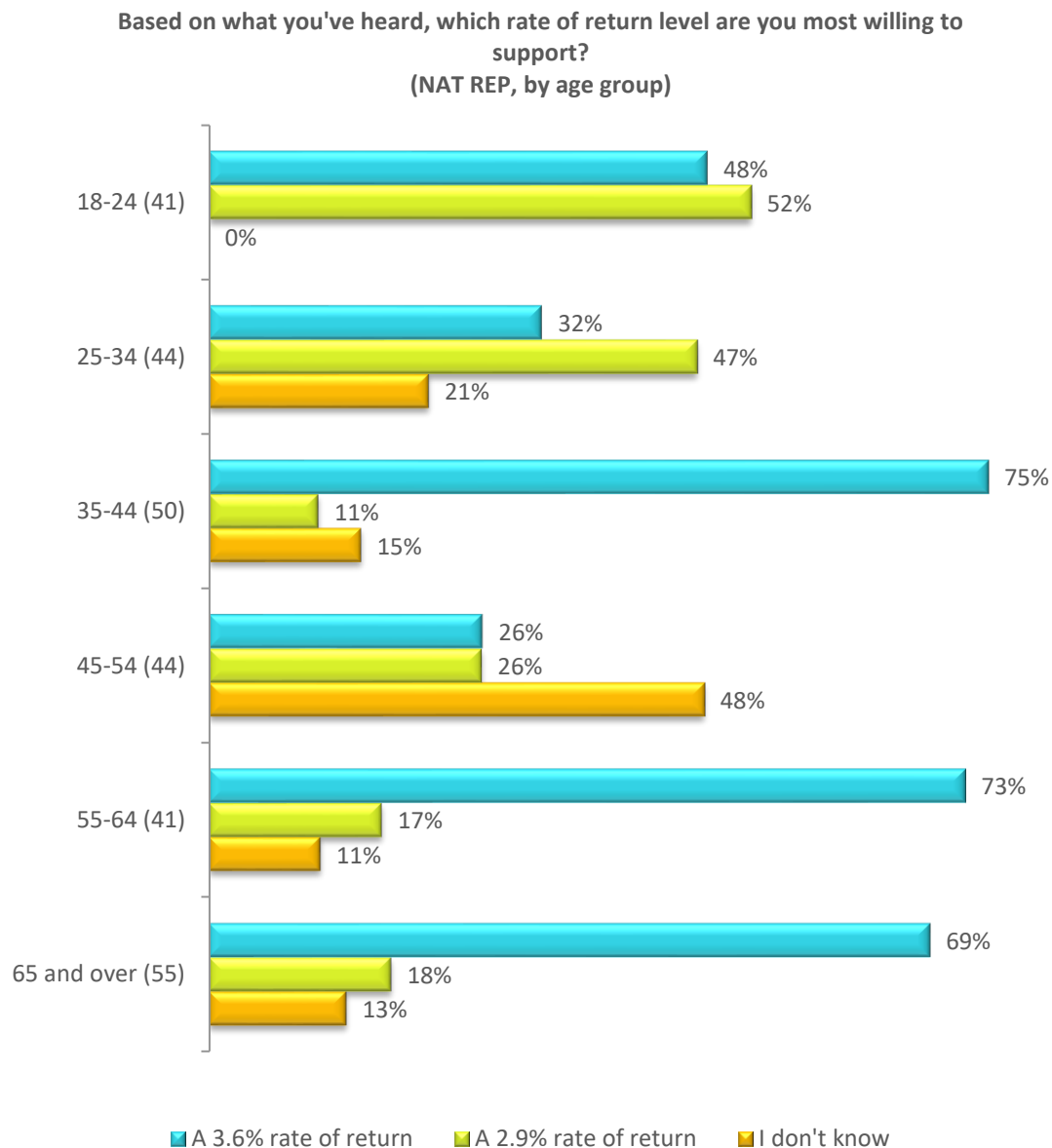


When comparing results between socioeconomic groups, groups B and D were most willing to support the 3.6% rate of return (75% and 61% respectively). The 3.6% rate of return saw greatest support across all socioeconomic groups.

**Based on what you've heard, which rate of return level are you most willing to support?
(NAT REP, by socioeconomic group)**



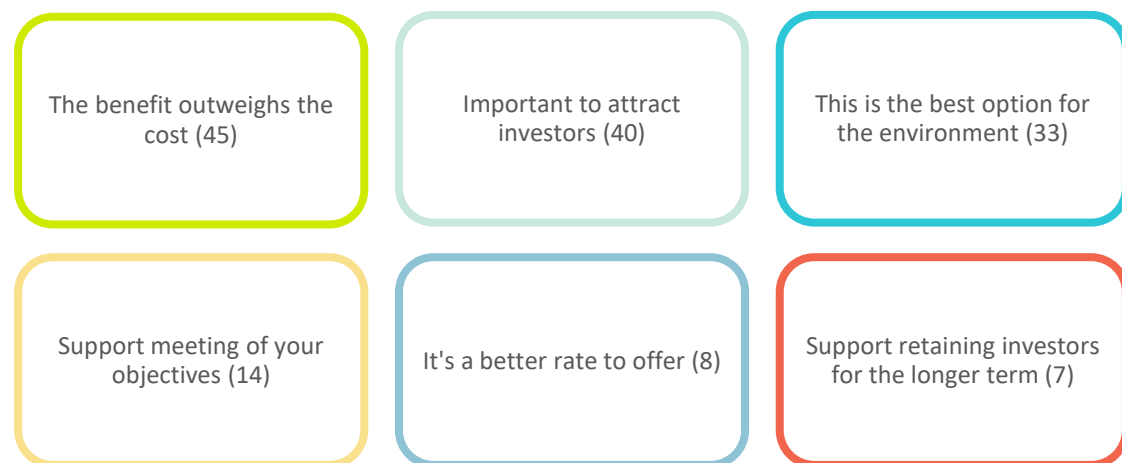
When comparing the results by age group, ages 35-44, 55-64 and 65+ saw a majority of support for the 3.6% rate, while those aged 25-34 were most in support of a 2.9% rate. Amongst 45-54 year olds, nearly half of respondents (48%) did not know which rate they were most willing to support.



All respondents were provided an open box and were asked to explain their previous response. Literal comments were collated and themes identified.

Most willing to support a 3.6% rate of return

The most common themes identified in responses were:

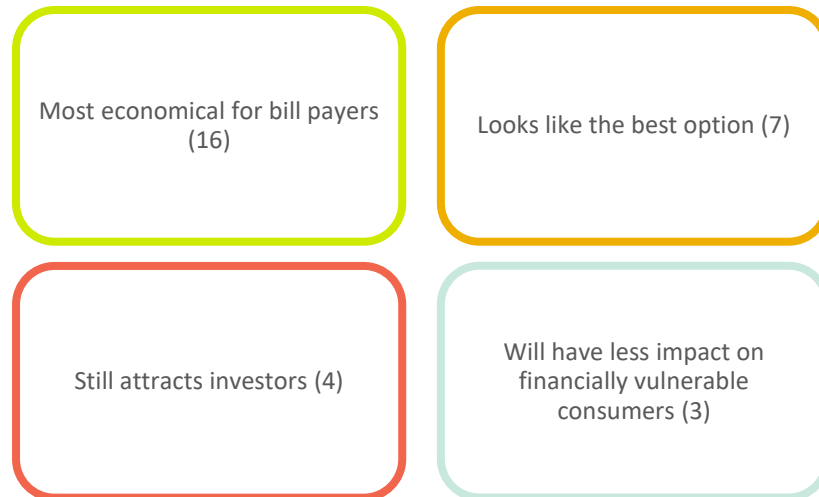


Examples of literal comments were as follows:

- *"The rate has to be attractive to investors and it would be a small price to pay to save the planet"*
- *"I am all in favour of doing what it takes to reach the government targets and the amount per household per year is very small in comparison to the returns that will be delivered"*
- *"The difference in cost between the two rates of return is not significant on a per household basis, whereas the higher rate of return will attract a longer-term investor who can help carbon reduction targets to be met"*
- *"I believe it to be investing in the health and wellbeing of everyone and I don't think I would feel the cost to be a hardship"*
- *"I agree and accept as an adult that we need to invest in our infrastructure - not just for my generation, but for my children and their children. The uplift between 2.9% and 3.6% is acceptable in my opinion"*

Most willing to support a 2.9% rate of return

Themes in response from those who said they'd be most willing to support a 2.9% rate were:

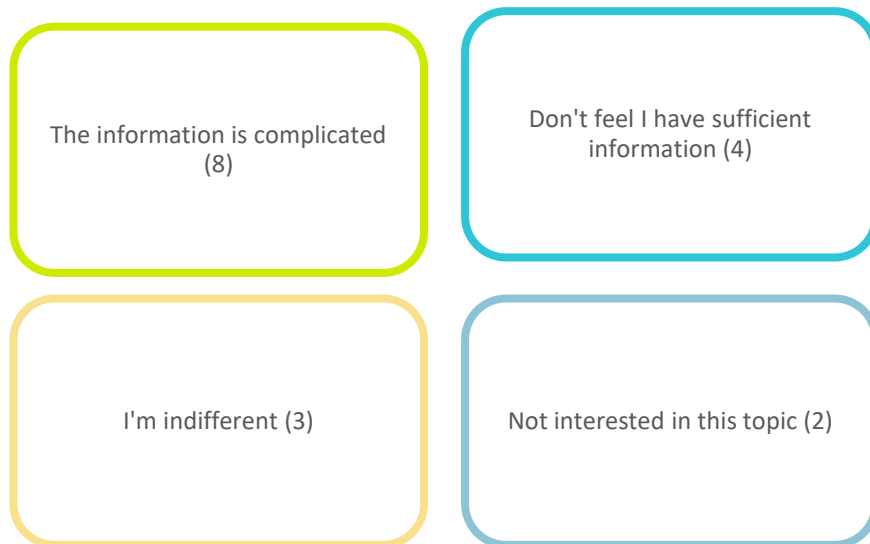


Examples of literal comments were as follows;




- *"I don't believe consumers should pay extra to line the pockets of shareholders"*
- *"There are only two options available and it appears to me that the company here is in favour of the higher percentage return. As a consumer I want to have my bills as low as possible, especially as our household is a very energy efficient one. Whilst I understand that you need to deliver investments and achieve targets, etc, it is speculation whether you can do this at either percentage rate. So, in my opinion it would be better to start it off at 2.9%, then if over the first year it looks unachievable, then increase it to a higher percentage"*
- *"Least rate of return for a service I believe should be returned to the public sector"*

I don't know

14 respondents simply stated that they didn't know or weren't sure. Other themes which emerged were:

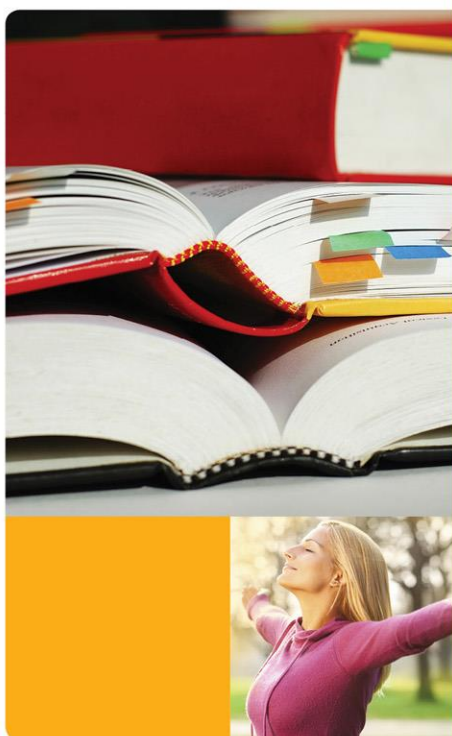


Examples of literal comments were as follows:

-  *"I am confused by some of the terminology (despite a generally good grasp of economics). It seems that the investment is required as a result of an arbitrary decision of government, yet, government is unwilling to invest directly at preferential rates? That would have seemed the obvious solution to me"*
-  *"Seems like you want customers to pay more so big shareholders can make more profit"*
-  *"Considering my age, I might not be on this earth by 2021 so I don't feel that it bothers me and if it boils down what you say we will have to pay who can argue against it"*

5.0 Appendices

A copy of the survey used in this study can be found here.



Appendix one – Online survey

Introduction to exercise

Thank you for taking the time to participate in this research.

It is being conducted on behalf of SP Energy Networks (one of the electricity network operators in Great Britain) by independent research agency, Explain Market Research.

We abide by the Market Research Society (MRS) Code of Conduct. Please be assured that your responses will be treated in confidence.

The research is designed to help SP Energy Networks understand what you think about aspects of their Transmission business plan for the period 2021-2026, so they can make the best decisions for the future of the electricity transmission network in Great Britain.

Navigate through and click 'Submit' at the end to send us your responses.



Screening / categorising

- Are you solely or jointly responsible for paying your household electricity bill?
 - Yes
 - No
- Which area do you live in? Please select your area from the list for analysis purposes.
- Please enter your postcode. Please note, this information will be used for analysis purposes only. [open box]



Demographic profiling

We would like to know a bit more about you. Please note, we use this information to analyse your responses. All information provided is handled sensitively in line with GDPR regulation.

- Which age group do you fit into?
 - 18-24
 - 25-34
 - 35-44
 - 45-54
 - 55-64
 - 65 and over
 - Prefer not to say
- Which gender do you identify as?
 - Male
 - Female
 - Prefer to self-describe (open)
 - Prefer not to say
- How would you describe the occupation of the main income earner in your household? If you or they are retired, please describe the occupation they had before you/they retired.
 - Higher managerial / professional / administrative (e.g. Director)
 - Intermediate managerial / professional / administrative
 - Supervisory or clerical / junior managerial / professional / administrative
 - Student
 - Skilled manual worker
 - Semi or unskilled manual work
 - None of the above (e.g. casual worker, not currently working, homemaker etc)
 - Prefer not to say

Please select the circumstance(s) you feel apply to you:

- I have sight/hearing/speech difficulties
- I have a long-term physical health condition
- I have a long-term mental health condition
- I am of pensionable age
- I have a family with children under five years of age, or caring responsibilities
- None of the above
- Prefer not to say


market research

Introduction to the research

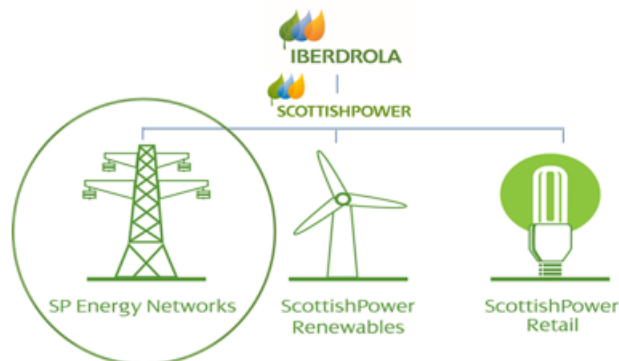
Thanks for your answers so far!

The aim of this research is to take you through aspects of SP Energy Networks' Transmission business plan for the period 2021-2026 and to understand your views on them.

First, SP Energy Networks is going to tell you about who they are and what they do. We'll also give you an overview of how the electricity system in Great Britain works, so you can understand how their business plan fits in with how you use electricity and the bill you get from your energy supplier.


market research

Introduction to SP Energy Networks



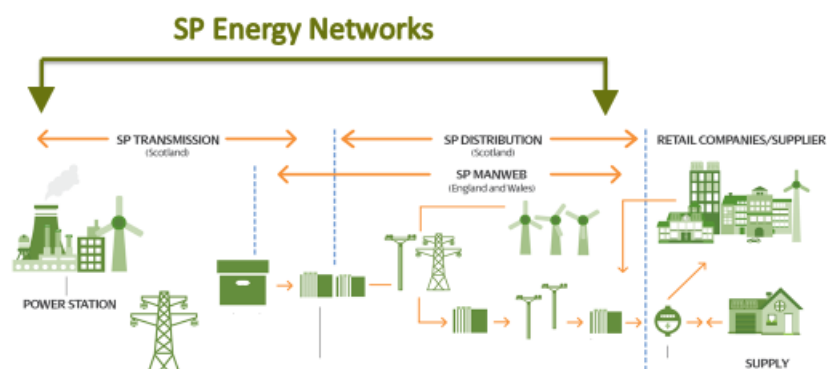
SP Energy Networks is part of the Scottish Power Group, which is owned by a Spanish company called Iberdrola.

The Scottish Power Group is made up of SP Energy Networks, Scottish Power Renewables and Scottish Power Retail. These are legally separated companies and operate entirely separately from one another.

It's SP Energy Networks we are focusing on in this research!



Introduction to SP Energy Networks



At SP Energy Networks, we own and operate both the electricity transmission and electricity distribution networks in central and Southern Scotland. We also own and operate the electricity distribution network in Merseyside, Cheshire, North Wales and Shropshire.

We take electricity that is generated from power stations, windfarms and other utilities across the whole of Britain and transport it through our network to where it is needed.

The transmission network moves electricity round at high voltage, before the distribution network delivers electricity to and from homes and businesses at a safe voltage for us to use.

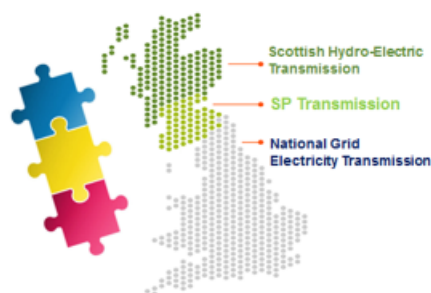


Intro to SP Transmission and the electricity transmission network

There are only three companies who look after the transmission of electricity in Great Britain, which between them cover the whole of Britain.

SP Transmission is owned by SP Energy Networks (who you were introduced to earlier on), and looks after the transmission of electricity in and through central and southern Scotland. For example, we transport electricity generated from renewables in the highlands and islands onwards towards to highly populated areas of England and Wales.

All electricity network operators are regulated, so SP Transmission and the other electricity transmission network operators have their revenues set and approved by the industry regulator, Ofgem (the Office of Gas & Electricity Markets).



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How does all of this relate to consumers and electricity bills?

The money required to run and invest in the three transmission networks covering the whole of Great Britain are added together. These costs are then divided across the whole of Great Britain as a proportion of each electricity consumer or electricity generator's bill.

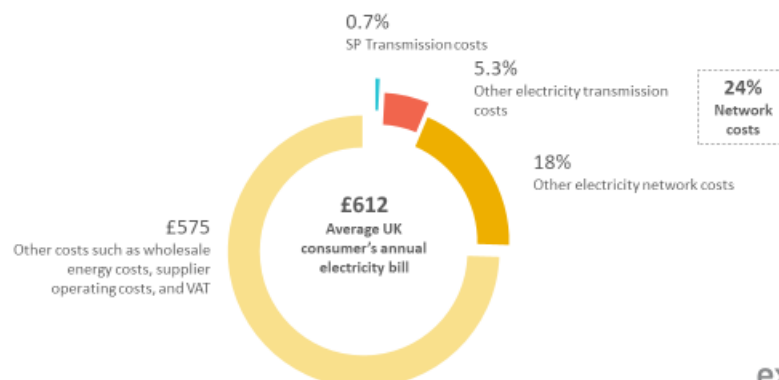
That's why it's important that we ask for the views of people all over Great Britain as part of this research.

Let's think about bills in a bit more detail...

The current average annual household electricity bill in the UK is £612.

Of this £612, 6% (£37 on average) goes to the costs of the three transmission networks in Great Britain. Less than 1% of the average bill goes to us at SP Transmission each year.

The rest of the electricity bill goes to costs such as the costs of buying the energy itself, the operating costs of electricity suppliers like their staff and offices, environmental and social costs the government says have to be paid, and VAT too.



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Questions

1. Do you understand everything you've heard so far?
 - Yes
 - No

2. Had you heard of SP Energy Networks or SP Transmission before taking part in this research?
 - Yes – SP Energy Networks
 - Yes – SP Transmission
 - Yes - both
 - No - neither
 - I'm not sure

3. What do you think of the value of £4.38 of the current average annual household electricity bill going to SP Transmission?
 - It's too little
 - It's too much
 - It's just right
 - I don't know



Our plan - Strategic goals

Our Business Plan for 2021-2026 sets out four strategic goals which align with what householders, network users, and those who have an interest in our business have told us is important to them.

Our four goals are that SP Transmission will....

1. Take the lead to build a sustainable, low-carbon future
2. Increase efficiency through constant innovation (new ways of doing things)
3. Adapt our world-class, resilient network, to meet the new challenges we face (such as changes in demand for electricity and how consumers use it)
4. Keeping network users and consumers at the heart of our decisions

To meet our goals, we need to invest in our network, so we need to ensure we have appropriate levels of funding to carry out the work required.

As a financially responsible network operator, it is our job to make sure we are able to fund the levels of investment needed to meet our legal requirements.



| Financing our investment

We're going to be asking for your views on aspects relating to how we finance our business activity, so it's important to first understand where our money comes from and what we spend it on.

SP Transmission is funded through shareholders and external lenders who provide us with money to invest in our networks.

Our network earns a revenue which we use to cover the annual operating costs and to pay back our shareholders and lenders in exchange for their investment.

The revenue, which Ofgem tells us we are allowed to recover, is paid by all network users in Britain including householders, businesses and electricity generators. These revenues are used to pay for the day to day running of the network, and also to pay for the long term investment required to make sure the network remains reliable and allows for future changes.

The day to day running costs are passed on to consumers in the year they happen, while investment in the network is recovered over the useful life of the assets, which is typically 45 years. This makes sure that every user over time pays proportionally for their use of the network; this is referred to as intergenerational fairness.



| Managing uncertainty / considerations / changing needs

When developing our Business Plan it was important for SP Transmission to consider the uncertainties of the world that we work in. These can be very varied but some examples include:

- Financial uncertainties, such as inflation levels.
- Political uncertainty
- Changes in the way consumers use electricity.

For example, over the last 10 years, demand for electricity has reduced due to increases in energy efficiency measures such as the use of low energy lightbulbs.

At the same time, the demand for electricity is also set to increase in the future as transport and heating switch from traditional fuels which emit high levels of greenhouse gas – such as petrol and diesel, oil and gas - to electricity that can be generated by renewable energy.

How our electricity is generated is also expected to continue to change with more electricity being generated at a local and household level (through things like solar panels and wind turbines). This means our system needs to be ready to support this too.



Changing needs - Net Zero

Our electricity network has served the needs of network users in Britain for many, many decades. The scale of investment needed has therefore increased in recent years as large parts of our network reach end-of-life at the same time that we must act to facilitate a Net Zero emissions future, whilst always making sure our transmission network is safe and reliable.

The UK became the first major economy to pass a Net Zero emissions law. The targets will require the UK to bring all greenhouse gas emissions to net zero by 2050. The UK government's current policy is to insist that by 2040, all new cars and vans sold in the UK should be zero emissions capable. The Scottish government's Climate Change Bill has set a target date of 2045 for reaching net-zero emissions and the target for no new petrol or diesel cars is 2032.

Health experts have recognised that there are significant health improvements associated with cleaner air from reduced carbon emissions - air pollution costs the NHS £2.16 per person, each year, and will continue to do so unless we invest in a lower carbon future. Air pollution is the biggest environmental threat to health in the UK, with between 28,000 and 36,000 deaths a year attributed to long-term exposure.

This information is important for you to know here, as investors will be called upon to fund all of the necessary investment in the infrastructure which will enable the climate commitments made by the UK and Scottish governments, and we're looking for your views on aspects relating to this funding.



Overview of plan and consumer acceptability

Now let's think about the plan itself...

SP Energy Networks' Transmission plans for 2021-2026 have been developed in collaboration with bill payers and other interested parties, as well as their independent review panels. They continue to work closely with organisations who represent electricity consumers, like Citizens Advice, to help ensure their plans keep their networks safe, reliable and ready for the future in the most cost-effective way for bill payers.

Therefore, SP Transmission will continue to build a network which is sustainable, and works to achieve the carbon emissions targets set by the UK and Scottish governments ("Net Zero").

They aim to keep their plans as cost efficient as possible, with innovation at the centre of how they work, as they meet their core objectives of keeping the lights on and their networks safe and reliable.

They plan to finance their business plans (i.e. they plan to gather funding through shareholder investment and through debt) for between £1.20 to £1.48 on average per year of the typical electricity bill – **it's this element we would like your input on.**

Over recent weeks, we showed the plan to 1,616 household and business electricity consumers across Great Britain, and over **80%** said they found the plan to be acceptable.

Since going through that exercise, there are some additional elements of the plan that it's important are tested with electricity bill payers, as the bills you pay support the running of the network and therefore it's important you have a say in shaping SP Transmission's plans for the future.



Questions

1. Do you understand everything you've heard so far?
 - Yes
 - No

2. Based on what you know about them, do you agree that SP Energy Networks and their Transmission business have a key role to play in achieving the Net Zero carbon emissions targets?
 - Yes
 - No
 - I'm not sure



Making sure we have financial investors to fund our long-terms

- Over the 2021-2026 period we need to invest at a base level of £1.3bn in our infrastructure to ensure we are able to continue to provide you with a 99.99% reliable supply of electricity.
- In addition, we should invest further in the electricity network to enable the connection of low emission renewable electricity generation and electric transport.
- It is important this investment is not held up as it creates jobs, supports local economies and will provide health benefits for our communities.
- So how will we fund this significant amount of investment? As mentioned earlier, like all companies our options to attract the relevant funds are:
 - from **shareholders** who are investors (like Pension schemes) who are willing to buy a stake in the company in the hope of a future income through a share of any profits received via dividend payments. It is important the return we offer is sufficient to compensate shareholders for the risk they accept.; and
 - the **debt market**. Borrowing from banks or other investors in return for a set return and repayment of the funds loaned to the company by a set date. This is similar to debt you might have such as a mortgage, car loan, or student loan.
- To attract sufficient funds, the rate of return to shareholders and debtholders needs to be competitive in comparison to the returns offered by other companies.
- If we offer too low an interest rate on borrowings or return to shareholders, at a rate of return lower than other options available to investors, we will not be able to sustain our required investment programme.



| Our question to you

- We will provide a short overview of the impacts between different levels of shareholder returns, then we'll ask for your view on which return level you would be most willing to support.
- There are two options:
 - a 2.9% rate of return; or
 - a 3.6% rate of return
- We'll tell you more about what each of these would mean.



| Option 1: 2.9% rate of return

Based on a 2.9% rate of return:

- the cost for SP Transmission to finance its business between 2021 and 2026 at a 2.9% rate of return will be, on average, £1.20 per year per household;
- we will be able to fund our business at the £1.3 billion base level of investment in the network to continue to provide you with a 99.99% reliable supply of electricity;
- at this level of investment, within the period, it is likely we will not make sufficient progress to support the achievement of governments' carbon reduction targets; and
- we also may not continue to attract a long term strategic investor with associated engineering capabilities, who is willing to invest in our business for the long term, creating economic stability.



| Option 2: 3.6% rate of return

Based on a 3.6% rate of return for shareholders:

- the cost for SP Transmission to finance its business between 2021 and 2026 at a 3.6% rate of return will be, on average, £1.48 per year per household;
- we will be able to attract more investors to fund future investment;
- the increased investment has the potential to facilitate an additional £127m p.a. (£2.90 per customer) of carbon savings, per annum, in perpetuity, in comparison to the investment made at a 2.9% return; and
- it will support the retention of a longer term investor, with engineering capabilities, that will help deliver the investment to achieve the governments' carbon reduction targets.



| Rate of return support

1. Based on what you've heard, which rate of return level are you most willing to support?
 - A 2.9% rate of return
 - A 3.6% rate of return
 - I don't know
2. Please can you explain the reason(s) behind your previous response? [open question]



| Close

That's all the questions we have for you today.

Thank you for taking the time to participate in this research, your response is valued.

Please click 'Submit' to send us your responses.



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t: 0191 261 5261
f: 0191 232 0637

explainresearch.co.uk
info@explainresearch.co.uk

Registered Office:
Explain Market Research Ltd 48 Leazes Park Road, Newcastle Upon Tyne, NE1 4PG
Company Reg No: 2880683 Vat Reg No: 621286654 (England & Wales)