

spenergynetworks.co.uk



# SP Energy Networks RIIO-T2 Board Assurance Statement

December 2019



# Objective

The Board of Directors of ScottishPower Energy Networks Holdings Limited (SPENH Board) and the Board of Directors of SP Transmission plc (SPT Board)<sup>\*</sup> has overall responsibility for the long-term strategy and direction of our RIIO-T2 business plan. As the SPENH Board, we have provided proactive oversight in the creation of SP Energy Networks' RIIO-T2 Business Plan. We have worked hard to make sure the plan is founded on the best interests of end consumers, our network users and wider stakeholders alike as well as contributing to Scottish and UK Government Net Zero targets.

This document sets out the Board's assurance statements for the plan and details why we are confident that the plan and associated costs have been tested for accuracy, efficiency and ambition.

## Board Proactive Oversight

The SPENH Board has been involved in the business plan development process from the outset. We have held four dedicated workshops in 2019 to focus on RIIO-T2, in addition to regular updates at our Board meetings. The dedicated workshops have allowed us to challenge aspects of the RIIO-T2 business plan content at every stage of the business planning process.

Additionally, our Sufficiently Independent Directors (SIDs) have spoken to the Right Honourable Charles Hendry, the chair of the Independent Transmission User Group, and have had the option to access the User Group throughout the process. The Board are satisfied that all feedback provided by the User Group on the draft business plan narrative has been addressed by the RIIO-T2 project team.

The existing risk-based assurance framework used by SP Energy Networks was further enhanced for RIIO-T2 and approved by us, the Board, meaning that every area of the plan has been rigorously scrutinised. A "**three lines of defence**" model was used, with the risk scores used to drive the additional assurance activities carried out. The Board involvement in these additional assurance activities is set out opposite.

The Board recognise that assurance is an ongoing exercise and does not end with the final submission of our Business Plan to Ofgem. Our involvement will continue as we deliver our plan, maintaining the strong relationship with the Independent Transmission User Group.

## Challenge from independent internal and / or external experts

12 independent external experts were engaged to scrutinise multiple aspects of our submission. The option was presented to the Board to meet with these external parties if needed and the Board also had access to their final reports. Updates on the key outputs of these external activities were provided by the work stream leads at the dedicated RIIO-T2 workshops; the Board were satisfied with the breadth of coverage of these assurance activities and that all recommendations made had been addressed by the RIIO-T2 project team.

With each submitted draft of the plan, a number of internal and external experts, including the Board, have reviewed and provided detailed feedback on the Business Plan narrative. The Board requested to review the feedback captured and was satisfied that all comments had been addressed by the RIIO-T2 project team.

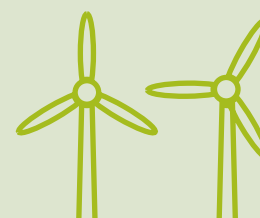
## Internal assurance team

The Board have taken comfort from the involvement of the Internal Assurance team throughout the development process. The team have used a risk-based approach to review the population of the Business Plan Data Tables. At the Board's request, the output of the Internal Assurance work was detailed in a dedicated workshop on RIIO-T2 assurance; the Board were satisfied with the approach and scope of the review.

## Internal Audit

ScottishPower has a well-established Internal Audit team which is independent from SP Energy Networks. Internal Audit has carried out audits related to governance of the internal RIIO-T2 project programme and RIIO-T2 business plan assurance. The final reports produced by Internal Audit have been noted by the Scottish Power Energy Networks Holdings Limited Audit and Compliance Committee as well as reviewed at the dedicated RIIO-T2 Board workshops.

<sup>\*</sup>For the purpose of this Board Assurance Statement, references to "the Board" include the SPENH Board and SPT Board.



## Accuracy, Efficiency and Ambition

To the Board, an ambitious business plan puts consumers first and delivers value for money, whilst ensuring that it can deliver a resilient network, maintaining our current high standards, and driving the innovation that prepares for the transition to Net Zero.

The Board are confident that the plan and associated costs have been tested for accuracy, efficiency and ambition:

### Accuracy

The Board are confident that we are submitting a high quality business plan which is robust. All aspects of our submission have been significantly challenged from both internal and external independent experts; ranging from validation of our asset condition and needs cases to confirmation that our Cost Benefit Analyses have been carried out in accordance with agreed methodology. Method Statements, Second Person and Senior Manager reviews have been completed for all elements of the submission, in compliance with Ofgem’s Data Assurance Guidance.

### Efficiency

The Board are confident that we have submitted an efficient business plan. The extensive external assurance that has been used throughout the development process supports this view:

Our engineering strategies have been externally assured to make sure that we are doing the most efficient thing for both present and future consumers. As an example, we worked with Elias Ghannoum, a world renowned expert with over 48 years’ experience in every aspect of Overhead Transmission Lines, to validate the methodology that we used for Overhead Lines.

We ensured that the engineering solutions that we were proposing were the right ones and we had fully explored all possible options. As an example, we worked with Ramboll, a leading multi-disciplinary engineering company, to provide independent technical review of proposals for 19 of our projects.

Finally, we needed to ensure that our plan was based on efficient costs. We did this by engaging with Arcadis, an independent specialist consultancy that have extensive experience in electricity transmission, to critically review the scope and costs of our RIIO-T2 plan. A “deep dive” review was carried out which ultimately led to the conclusion that our costs can be considered efficient against their benchmarks.

### Ambition

It is the Board’s view that we have submitted an ambitious Business Plan. There are multiple aspects of ambition in our Business Plan, all against a backdrop of the increasing risks network companies will face over RIIO-T2, such as unknown Government policy and increasing demands on our system as a result of the Net Zero transition. We have seen these areas of ambition develop throughout the planning process and become embedded in our plan:

We are at the heart of the energy system transition and have created a plan with high confidence baseline to connect 900MW of new generation and creating capacity to allow other changes across Great Britain, whilst having the means of adapting our plan to accommodate other changes as and when they emerge in this period of uncertainty.

Our plan paves the way for the transition of transport and heat to an electric future.

Our innovation plans are stretching, not only resulting in our costs being lower in RIIO-T2 and beyond but also enabling faster connection of renewable generation and avoiding system constraints.

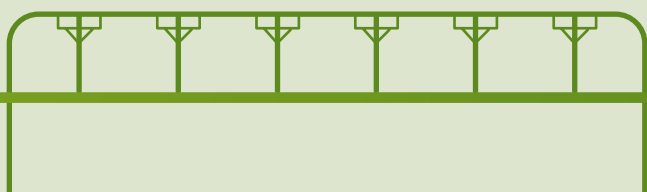
Our approach to asset risk is to ensure that we maintain exceptional levels of reliability, rising to the challenge of managing an asset base which in parts, dates back to the early 1930s.

Our commitments to SF<sub>6</sub> reduction and alternatives will avoid 9,700kg of SF<sub>6</sub> being added to the network across the RIIO-T2 period, avoiding estimated emissions equivalent to over 1,200tCO<sub>2</sub>e per year. We are committed to driving the development and adoption of SF<sub>6</sub>-free technologies, collaborating with supply chain and industry peers and piloting new technologies where technically viable.

We have proposed a £20m Net Zero Fund with a focus on vulnerable communities. This will support the creation of jobs as well as delivering significant carbon savings to create wider socio-economic benefits.

We have tightened our incentive targets, which penalise us when we fail, and reward us only when we exceed our targets in delivering what our customers and society want. We propose to retain the existing Independent Transmission User Group to assess our performance in relation to our bespoke and reputational incentives, as well as the commitments we make in our business plan. This will provide a continual external challenge on our performance throughout the price control; not just on our business plan submissions.

The final reports produced by our external assurance providers can be reviewed in **Annex 23: Our Assurance Framework.**



## Board Sign-Off Statements

As such we can confidently say:

**The Board have challenged the overall RIIO-T2 assurance and governance strategy and are satisfied that this approach guarantees high-quality data** – SP Energy Networks have further enhanced an already established, risk-based assurance framework, deploying additional assurance activities based on the output of the risk assessments. This has ensured that the plan has been subject to rigorous challenge from key independent internal and external experts. Ofgem's Data Assurance Guidance (DAG) has also been applied to SP Energy Networks' Business Plan, including Data Tables.

**The costs in the plan are efficient and ambitious – minimising impact on consumer bills** – We continually drive to be more efficient and maintain a very low cost to consumers. Our business plan is 9.5% more efficient than RIIO-T1; this reflects the efficiencies realised from RIIO-T1 and an additional RIIO-T2 efficiency stretch from design and innovation. The benchmarking exercise carried out by independent external specialist Arcadis has given us confidence that our costs are considered efficient against their benchmarks. In addition to this, SP Energy Networks has carried out a cross check against RIIO-T1 expenditure. The average annual cost to our Consumers is less than £5.

**Delivery of the plan will mean SP Energy Networks take a leading role in facilitating a Net Zero future** – SP Energy Networks have developed a plan which will enable societal decarbonisation whilst providing the flexibility necessary to adapt to emerging consumer and network users' requirements for achieving Net Zero. In addition, SP Energy Networks have broadened already established commitments to carbon reduction in their operations, assets and supply chains and have proposed a £20m Net Zero fund which has been supported by stakeholders due to its wider societal benefits.

**The plan will provide a reliable network with security of supply** – the focus of the non-Load investment in the plan is to refurbish or replace assets in the poorest condition, which pose the highest risk to network reliability. This is particularly important now as much of Britain's impressive transmission infrastructure comes to end-of-life some 50 to 70 years after it was first constructed. We are confident in the robustness of the non-load investment decisions given the intensive assessment programme put in place by SP Energy Networks and the scrutiny provided by independent, external specialists on the needs cases, and technical options.

**The plan has been co-created with our wide-ranging stakeholders including consumers and network users and represents the interests of all relevant parties** – Stakeholder input is fundamental to all SP Energy Networks' activities and this is ever more pertinent when planning and prioritising for the future. All the investment decisions in the plan have been discussed with stakeholders including local and national Government, suppliers, financial industry experts, contractors, staff, unions, consumer representatives, network users including connected customers and community energy specialists. In line with keeping consumers at the heart of all our decisions, investment decisions have been explained and created with the priorities consumers have told us were most important to them. Each investment area of the plan has also been explained in terms of the average consumer bill impact. We know that this business plan has also benefited tremendously from the additional oversight, input and challenge from the independent Transmission User Group chaired by the Rt Hon. Charles Hendry.

**The plan is deliverable** – SP Energy Networks has built its RIIO-T2 plan based on their experience of delivering an array of projects on a timely and efficient basis through RIIO-T1. Detailed delivery plans have been implemented for RIIO-T2, which provides the SPENH Board with a high level of confidence that this plan can be delivered within the timescales, budget and specifications stated.

**The plan is financeable on both a notional and actual capital structure basis** – it is the network owner's responsibility to demonstrate that their financing plan is 'efficient', requiring no greater cash flow than is necessary to be 'financeable', as set out in paragraph 3.18 of Ofgem's Business Plan Guidance. As such, we have set out in the full business plan comprehensive qualitative and quantitative analysis supporting our plan, and considered the financial assumptions in further detail at our additional Board workshops.

**Sr Armando Martínez**  
Chairman  
Non-Executive

**Sr Antonio Espinosa de los Monteros**  
Member  
Non-Executive

**Sr José Izaguirre Nazar**  
Member  
Non-Executive

**Mr Frank Mitchell**  
CEO  
Executive

**Mr Scott Mathieson**  
Member  
Executive

**Ms Wendy Barnes**  
Member  
Independent,  
Non-Executive

**Ms Alison McGregor**  
Member  
Independent,  
Non-Executive

**Professor Dame Lesley Anne Glover**  
Member  
Independent,  
Non-Executive

