

Regulatory Financial Performance Reporting

Scottish Hydro Electric Transmission Plc
Financial Year 2023/2024



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1. Executive Summary

This commentary summarises the regulatory performance of Scottish Hydro Electric Transmission plc (SSEN Transmission) in line with the Regulatory Financial Performance Reporting (RFPR) Guidance document¹. The RFPR consists of two elements: 1) Ofgem’s RFPR template for reporting data and 2) The RFPR commentary. This commentary should therefore be read alongside the RFPR template and associated data tables.

The primary focus of the RFPR is to summarise the key components of the financial performance of regulated networks by way of the Return on Regulatory Equity (RoRE). RoRE is presented as an average over the RIIO-T2 period rather than prioritising in-year, cumulative, historical or year-on-year performance. The RIIO-T2 period ends 31st March 2026. As such, the 2024 RFPR submission reflects outturn data up to regulatory year 2023/24 and forecasted data thereafter. Consequently, analysis of average expected RoRE over the period demonstrates the forecast outcomes for SSEN Transmission, influenced by improvements in service quality for customers alongside ensuring expenditure is incurred efficiently. It is important to therefore highlight the following for readers:

- RoRE is not a reflection of customer bills, whereby a higher RoRE does not equate to higher customer bills. RoRE is intended as a reflection of Network performance whereby higher RoRE is likely to mean greater cost efficiency which leads to lower customer bills while delivering better service levels;
- The RoRE measure does not include the interest costs on borrowing. Electricity network infrastructure is financed by both borrowing funds (debt) and shareholder investment (equity) and hence, a measure which only takes into account the part of the business financed by investment is not a complete measure. The overall Return on Capital Employed (ROCE), or as we have referred to the Rate of Return (RoR), is an alternative measure which more appropriately reflects the costs to customers for the overall electricity network. This commentary therefore sets out the RoRE and the RoR for completeness; and,
- RoRE must be interpreted across the full RIIO-T2 period considering any Enduring Value (EV) adjustments and interpretation is needed as to what RoRE means for customers. Ofgem refer to EV as adjustments that are required to reflect the performance after completion of the price control including true-up and close out adjustments. Our EV adjustments are therefore reflective of our expectation for these adjustments based on Ofgem Final Determinations, the Regulatory Licence and discussions with Ofgem over the price control period. We have not reflected any adjustments from RIIO-T3 that may be interpreted as affecting the RIIO-T2 performance i.e. RoRE.

This document includes our Methodology for EV in Appendix 1. We have also briefly summarised our financial performance in this document, which corresponds to information provided to Ofgem set out in documents submitted under the Regulatory Instructions and Guidance (RIGs). Note that the financial values required to be reconciled within the RFPR are reconciled to the audited statutory accounts for each applicable year in accordance with the RIGs.

The performance is reported mostly using the nominal price base. A statement has been made to notify readers where 2018/19 pricing base is utilised within the report. It should also be noted that the forecast is subject to assumptions that can change over the remaining price control period.

¹ Ofgem (2024) “Regulatory Financial Performance Reporting (RFPR) Guidance”. Available at: <https://www.ofgem.gov.uk/decision/decision-2024-modifications-regulatory-financial-performance-reporting-rfpr-riio-2>

2. Financial and Operational Performance

SSEN Transmission own and maintain the 132kV, 275kV and 400kV electricity transmission network in its licence area in the north of Scotland. The Company's network comprises of underground cables, overhead lines, steel towers and electricity substations, and extends over a quarter of the UK land mass across some of its most challenging terrain. SSEN Transmission operates to provide a safe and reliable supply of electricity to communities. The company does this by taking the electricity from generators and transporting it at high voltage over long distances through the transmission network for onwards distribution to homes and businesses in villages, towns and cities.

We have completed the third year of operation under the RIIO-T2 price control period. Below is an assessment of key performance metrics for SSEN Transmission for the financial year ended 31 March 2024. In addition to below metrics, the performance related to regulatory indicators are detailed in other parts of this report thus should be read alongside this section.

Table 1: Key Financial and Operational Performance Indicators

Key Performance Indicators	Mar-24	Mar-23
Adjusted Operating Profit (£m)	566	405
Regulated Asset Value (£m)	5,786	4,971
Capital Expenditure (£m)	789	536
Number of Transmission System Incidents	4	2
Average System Unavailability	0.63%	0.69%

The Company's operating profit increased by 39.8% in the year to £566m. The Company saw a significant increase in allowed revenues during the year, reflecting both the increased portfolio of works under the RIIO-T2 price control as well as inflation uplifts in line with the regulatory framework, together with a positive timing variance following the under-recovery of revenues in the previous year. These were partially offset by increases in operating costs as the business continues to grow its operational capabilities and depreciation as the asset base expands.

The Company's capital expenditure has increased by 47.2% in the year to £789m owing to significant progress on the capital investment programme, having entered the third year of the RIIO-T2 price control period. The largest portion of spend in the year was focused on the final stages of the Shetland connection with offshore works now completed and the project in the final commissioning phase. The East Coast Upgrade to 400kV also progressed well with a further £117m invested during the period, which sees the first of three phases completed and successfully energised.

The RIIO-T2 Price Control commenced in April 2021 and the Company's in-year net RAV additions (including EV adjustments) totalled £928m. As at March 2024, the Company's RAV totalled just under £5.8bn, thus demonstrating its pivotal role in providing the infrastructure required to reinforce and maintain the electricity transmission network in the north of Scotland. In addition, the Company is exploring a number of growth opportunities which would significantly increase its RAV beyond this level. More details on these growth opportunities can be found in the Strategic Report of the Financial Statements, published on our website².

² SSEN Transmission (2024) "Directors Report and Financial Statements", pp. 22-16, Available at: <https://www.ssen-transmission.co.uk/information-centre/financial-information/>

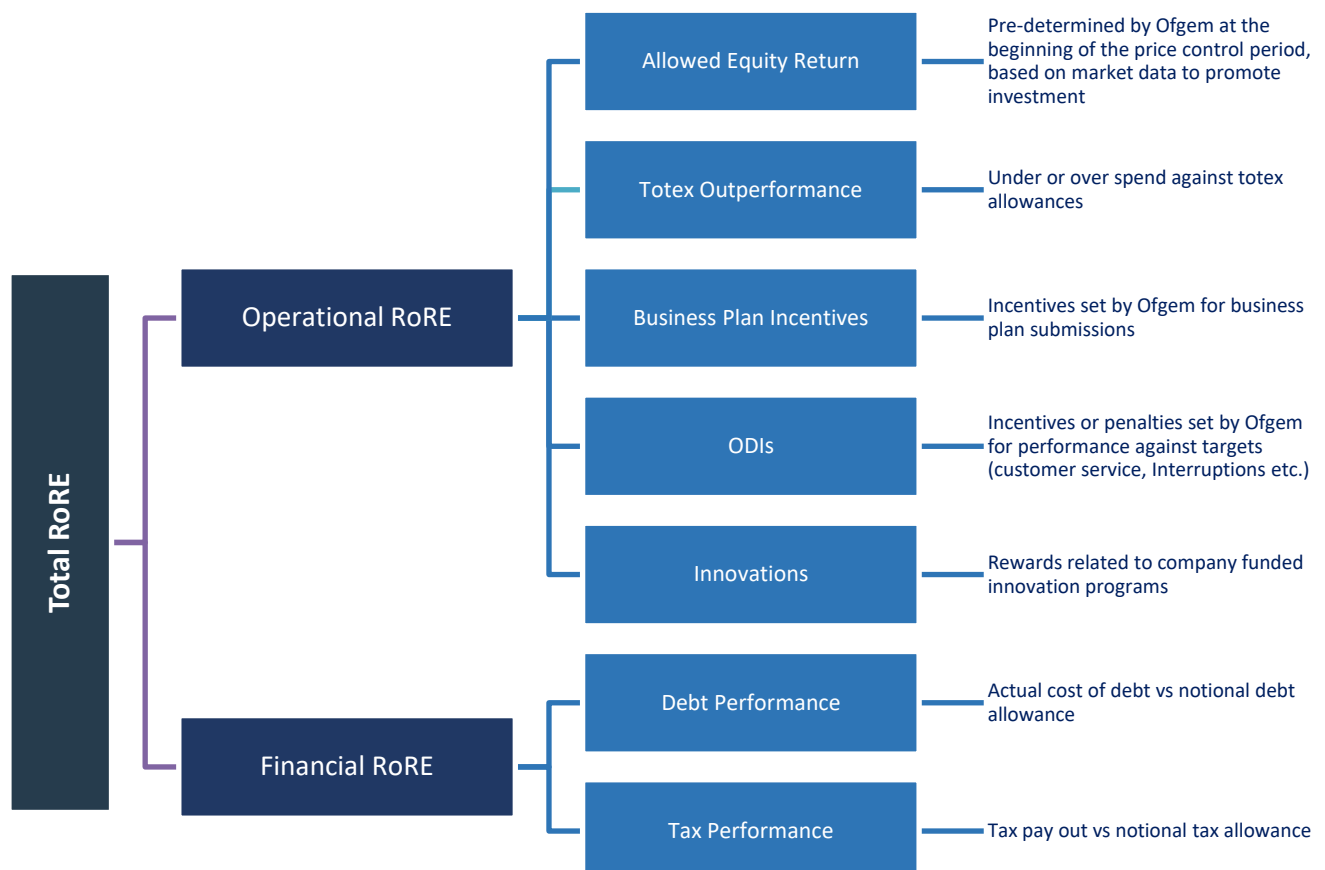
The number of Transmission System Loss of Supply Incidents in 2023/24 remained low at 4, an increase of 2 from last year. Only one incident had an impact on energy supply, marginally affecting the Company’s incentive reward. The System Average Circuit Unavailability due to faults decreased from 0.69% to 0.63%. This was due to smaller volumes and shorter times for return of the unplanned switch-out and faults. The focus of these incidents did not have any particular trend, with faults occurring for a number of different reasons.

3. Return on Regulatory Equity (RoRE)

What is RoRE?

Return on Regulated Equity (RoRE) is the key measure Ofgem uses to evaluate the financial return achieved by shareholders during the price control period. RoRE is a measure of performance for the whole price control period; RIIO-T2 and includes outturn information up to financial year 2023/24 and forecasted information for the rest of the price control period. As shown in Figure 1, the measure is further divided into operational and financial components. Operational RoRE includes costs and allowances related to RIIO-T2 regulated businesses, such as Totex, ODIs, and company-funded innovations. The financial component includes both financing and tax performance. RoRE is presented in terms of both notional gearing and actual gearing. Notional gearing is set by Ofgem as a reasonable level of gearing for Transmission Operators (TOs) given the level of investment risk, which is currently set at 55% for RIIO-T2. RoRE calculated based on notional gearing reflects a comparative performance indicator, allowing benchmarking amongst TOs. Actual gearing can be different to the notional gearing depending on company specific funding structure so can vary through time and between companies.

Figure 1: Elements of RoRE



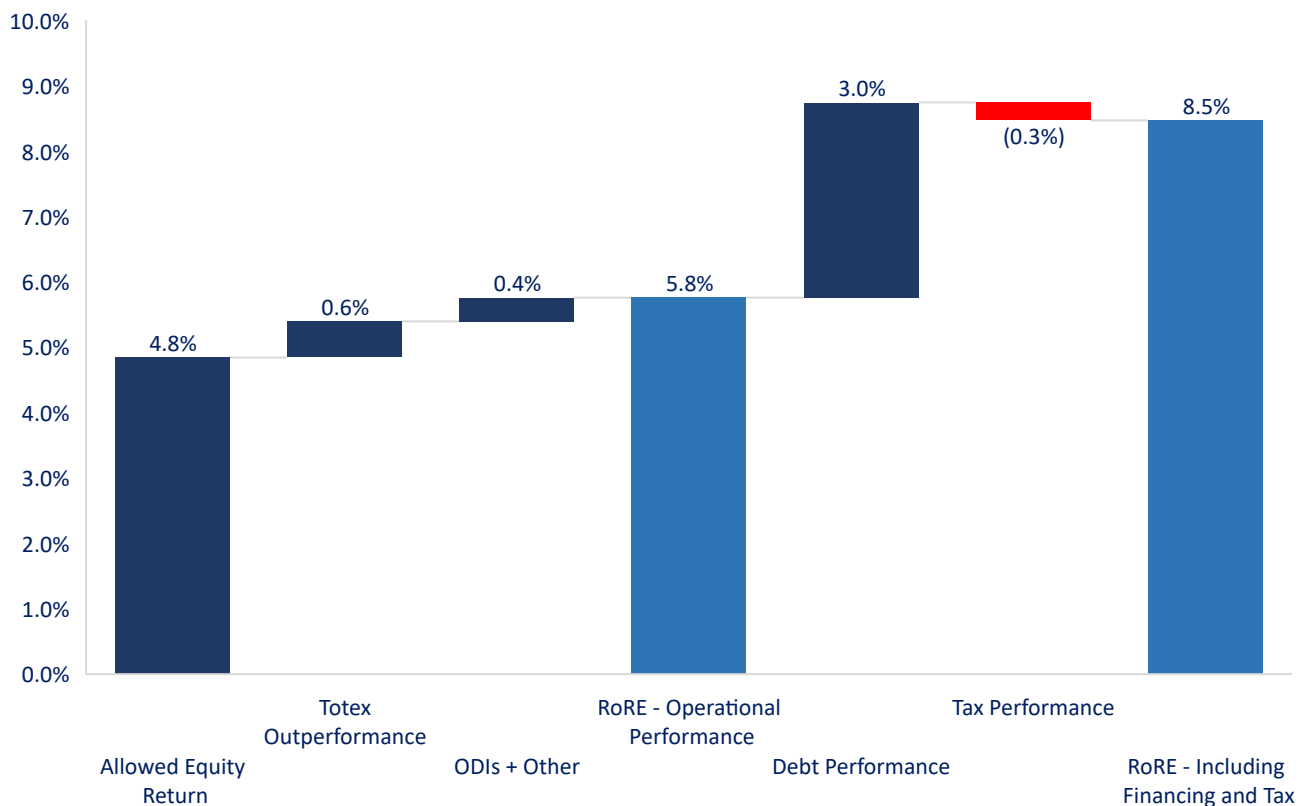
Each of the licensees can earn above its base return on equity (allowed return on equity) through delivering efficiency savings on operating and capital expenditure (referred to as total expenditure or ‘totex’). These efficiencies reflect our efforts to deliver contractual projects at a lower cost than allowances, ensuring lower customer bills. Additionally, if customer service levels improve against targets set by Ofgem, there is an opportunity to earn additional income through incentives. However, if service levels fall below targets set, a penalty will be incurred which reduces network revenue and therefore customer bills. This ensures that customers only compensate networks where they receive improving service levels. Furthermore, customers benefit from reduced bills when networks achieve efficiency savings on totex. In other words, if RoRE were to increase this translates to better service levels and lower consumer bills and not the opposite.

SSEN Transmission seeks to improve customer service levels while also delivering efficiency savings. We believe this strategy ensures customers obtain a better service while targeting lower bills.

Our Performance

Average RoRE for the RIIO-T2 period for SSEN Transmission can be seen in Figure 2 below. Disclosures are kept at notional gearing level to ensure comparability. RoRE based on actual gearing is disclosed on the RFPR data template published along with this commentary and is not significantly different to the RoRE calculated based on notional gearing, as the Company has aligned the actual gearing to the notional gearing during the RIIO-T2 price control period. Also, it is important to note that this is an average estimate for the RIIO-T2 price control period which include forecasted data beyond financial year 2023/24 that is often affected by the timing of the Allowed Revenue (AR) setting process. More information on forecasted data is available in Appendix 2 of this commentary.

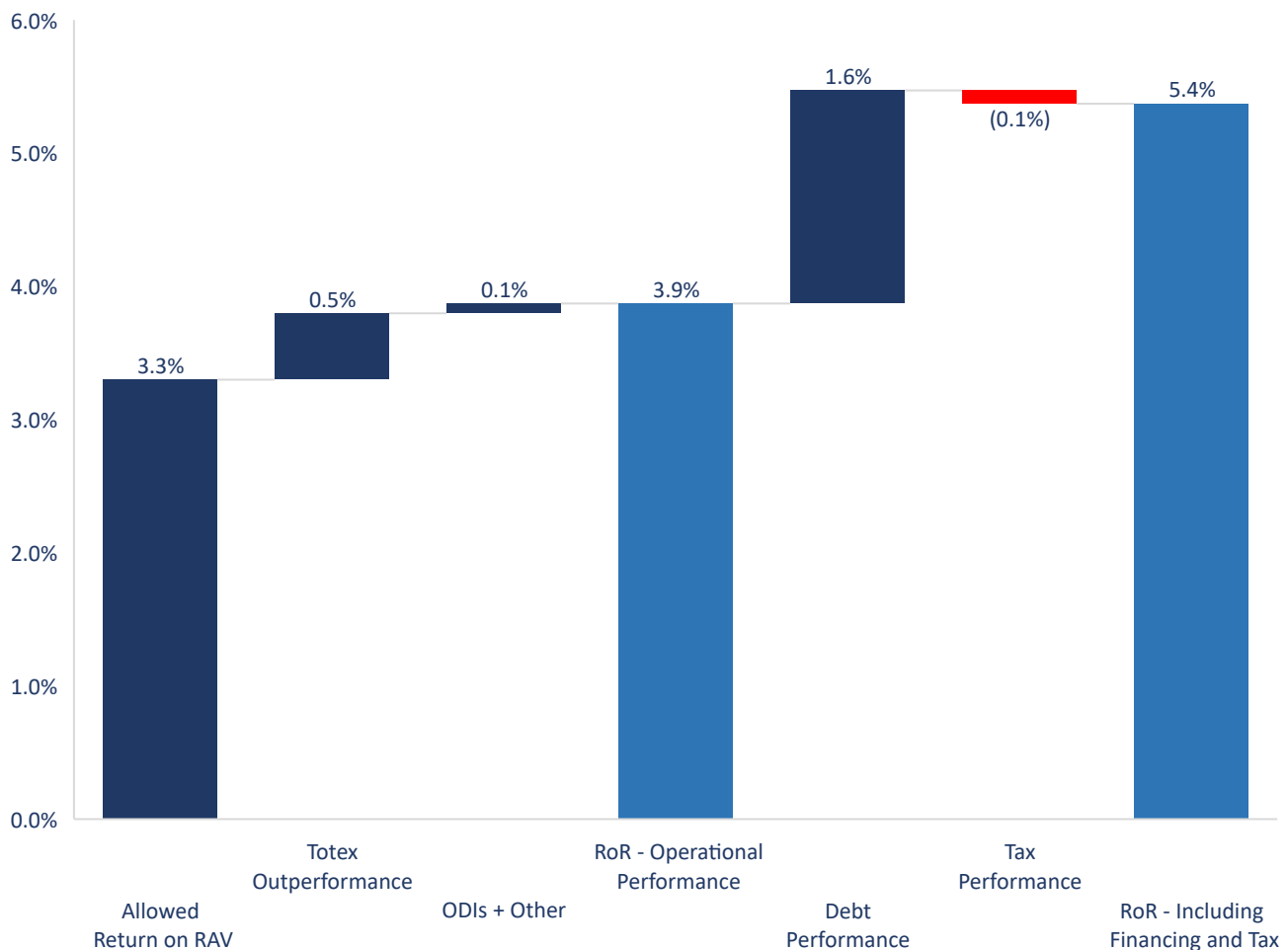
Figure 2 –Return on Regulatory Equity (RoRE) for the RIIO-T2 period for SSEN Transmission



SSEN Transmission is estimated to have an Operational RoRE of 5.8%; 100 basis points above the baseline Allowed Equity Return of 4.8% for the RIIO-T2 period. The company is focussed on improving customer satisfaction and network reliability and this has been realised through incentive rewards of c.0.4% increase to RoRE. The incentive framework for RIIO-T2 which predominantly focuses on totex efficiency as earned from the Totex Incentive Mechanism (TIM) boosted the operational RoRE for the company further by 0.6%. The underperformance on tax is due to timing differences across the price control period, however the impact of financing performance as a whole improves the overall return for SSEN Transmission to 8.5%. The company's debt financing mainly comprises of fixed rate debt safeguarding it against high inflation prevailed in last three years resulting an effective debt outperformance, increasing RoRE. More details on totex performance, ODIs, Debt and Tax performance can be found in Sections 5, 6, 7, and 9.

While RoRE is a measure of returns made to shareholders for the equity portion of regulatory asset base, we believe a measure that evaluates the performance of the total asset base would provide a better understanding of the overall performance of Transmission licensees. Figure 3 below sets out ROR as an alternate measure of performance that is measured by a Return on RAV instead on Regulated Equity. This is reflective of the gearing and cost of borrowing that customers pay for through use of the Transmission Network, as opposed to a shareholder focused rate of return in the form of RoRE.

Figure 3 –Return on RAV (RoR) for the RIIO-T2 period



At an operational level, SSEN Transmission forecasts a c.3.9% return. The Company is estimated to earn above the allowed Weighted Average Cost of Capital (WACC) operationally as well as when including the impact of financing and tax performance, with an estimated return of 5.4% generating additional value to investors and

consumers. WACC is the return that Ofgem allows licensees to earn on debt and equity investments made on RAV. It is calculated using market data at the start of the price control period, with variable values updated annually. RoR over the WACC indicates value additions above the allowed return.

Table 2: Comparison of RoRE for RIIO-T2 Estimated in 2023 RFPR vs 2024 RFPR

	Current RFPR (2024)	Previous RFPR (2023)
Allowed Equity Return	4.8%	4.7%
Totex Outperformance	0.6%	0.4%
ODIs + Other	0.4%	0.4%
RoRE - Operational Performance	5.8%	5.5%
Finance & Tax Performance	2.7%	2.6%
RoRE - Including Financing and Tax	8.5%	8.1%

As depicted on Table 2, per the updated view of our totex and other incentives as of the end of financial year 2023/24, SSEN Transmission is estimated to achieve an 8.5% RoRE, which is 40 basis points higher than the RoRE estimated in the previous year. An increase in the base Allowed Equity return of 10 basis points, and improvements to totex and finance performance are the main reasons for this increase.

4. Reconciliation to Revenue and Profit

This section outlines the reconciliation of revenue and profit stated on the statutory accounts against the regulated revenue and profit, as detailed in “R2 – Rec to Revenue and Profit” tab of the RFPR template. Regulated revenues are in line with the Price Control Financial Model (PCFM) and the revenue tariff setting process. This process allows each licensee to recover base revenue plus any incentive revenues earned and pass through items. Allowed revenues captured within the RFPR are directly sourced from the Price Control Financial Model (PCFM) submitted to Ofgem.

We recover our revenues through charges to the electricity system operator, who in turn, levy charges on users of the transmission system across Great Britain. Recovered Transmission Network Revenue totalled £856.0m for 2023/24. Given the timeline, the use of forecasts, and other economic factors which can affect demand; we may under or over recover the allowed revenue set as tariff. Consequently, we true up, by increasing or decreasing, future allowed revenue under the K correction factor term as detailed in our licence. The amount of over recovered revenue for 2023/24 totals £6.7m which will be adjusted through future years allowed revenues.

The reconciliation to revenue and profits stated in Statutory Accounts is based on Company’s underlying accounting records, which report revenues separately between statutory segments and treats costs differently to regulatory definitions. As such, the reconciling items disclosed in R2 tab of the RFPR template are derived from non-regulated revenue; the income we receive for non-regulated activities, and costs that does not fall into regulatory purview. Non regulated revenues mainly consist of Directly Remunerated Services (DRS) which are not covered by the price control; however, charges are calculated in accordance with our license. Other reconciling non-regulated revenue segments include innovation and de-minimis income. Differences between regulatory and statutory profit are to be expected and arise from the varying treatment of regulatory and statutory items. Examples of these include the accounting for regulatory tax against statutory tax, statutory interest cost against interest per regulatory definition, and statutory depreciation and amortisations.

The regulatory revenue for SSEN Transmission was £29.9m lower than the revenue stated on Statutory accounts and the regulatory profit was £76.0m higher than the net profit stated on Statutory accounts for financial year 2023/24. These differences are mainly driven by the factors listed below and are detailed in the R2 Tab of the RFPR template published alongside this commentary.

- Non-TNUoS Income
 - Directly Remunerated Services Revenue: £26.6m
- Other Adjustments
 - TNUoS Demand Reconciliation: (£1.1m)
- Difference between statutory interest cost and interest cost per regulatory definition: £37.2m
- Difference between regulatory tax versus statutory tax: £25.4m

The depreciation of non-regulated assets has been updated to nil for all reported years. All depreciation had previously been reported as a non-regulated statutory cost, however per the guidance this has now been updated to regulatory assets only.

5. Totex Performance

(Prices are in 2018/19 price base)

The purpose of this section is to provide an overview of the totex over/under performance and reconcile the totex with actual costs reported on statutory accounts. While totex over/under performance is explained for the whole price control period, with outturn up to financial year 2023/24 and forecast numbers thereafter, the reconciliation is limited to years for which statutory accounts have been published. Both the actual and forecast totex performance built into the RFPR is in line with the latest Regulatory Reporting Pack (RRP) submitted to Ofgem on 30 September 2024 alongside the Dry Run 01 of the Price Control Financial Model (PCFM).

The actual and forecast totex presented within the RFPR includes adjustments over and above the reported RRP position. The position is aligned with our PCFM which includes Accelerated Strategic Transmission Investment (ASTI) allowances and costs which were not reported in the RRP position per Ofgem's requirements. Totex forecasts include relevant EV adjustments, see Appendix 1 for EV Methodology and details on the adjustments made.

SSEN Transmission's total forecasted expenditure for RIIO-T2 is £6,502.6m against allowances of £6,659.4m (after accounting for EV adjustments) resulting in an underspend of c.2% compared to totex allowances during the RIIO-T2 period. Outperformance has been forecasted for our load RIIO-T2 Certain view schemes driven by a combination of innovation, intelligent/value engineering and efficiencies in the contracting strategy. Overall outperformance is partially offset by both higher CAI costs driven by increased headcount, required for pathway to 2030 projects and increased Business Support Costs (BSC) attributed to corporate recharges, part of which is attributed to ASTI works.

The total reported expenditure (sum of capital and operational expenditure) in the statutory accounts for financial year 2023/24 is not materially different to regulatory totex per CVR RRP. Detailed bridge between total expenditure per statutory accounts and the totex reported in CVR RRP is provided on the tab "T3 - Totex Reconciliation" of the RFPR template.

6. Incentives and Other Revenue

This section details our Output Delivery Incentive (ODI) performance and other Revenue Allowances for the regulatory year 2023/24. Incentive values are directly sourced from the RRP and PCFM submitted to Ofgem.

SSEN incentive performance for 2023/24 is explained below. Forecast incentives are based on an average of historic performance and management's experienced best estimate unless otherwise stated.

This year the Electricity Transmission business has again continued to deliver strongly on the five primary RIIO-T2 output areas: Safety, Reliability, Customer Satisfaction, Connections and Environment. All ODIs are meeting or exceeding their baseline.

Energy Not Supplied (ENS)

Our main driver in relation to ENS remains the same throughout RIIO-T1 & T2; to both minimise the number and duration of incidents on our network therefore ensuring maximum reliability of supply. The company was able to secure 95% of the achievable rewards under the ENS incentive, equating to £0.73m (18/19 Prices) for 2023/24. There was a slight reduction in performance compared to financial year 2022/23 with the number of Transmission System Loss of Supply Incidents increasing from 2 in prior year to 4 in 2023/24. Out of this, one event was an incentivised loss of supply event of 5.31MWhr against a target of 102MWh. Three other events were non-incentivised Loss of Supply events that contributed to 58.4MWhrs.

We continue to focus on maintenance and investment, with a view to keeping the number of incidents in SSEN Transmission low, by ensuring high availability, good design and prudent operations. We are seeing overall sustained improvement in performance due to these efforts with the average length of time reduced this year.

Insulations and Interruption Gas leakage (IIG)

SSEN Transmission was able to record the lowest yearly total in 2023/24 since the 2018/19 base year. Our leakage rate of 0.17% is now less than half of our IIG incentive target (0.38%). A key reason for the good performance is the culture change and targeted approach to SF6 leaks within the Operations Team and wider business through the SF6 forum. This means we address leaks much faster with planned intervention on the most problematic assets. Overall, the performance resulted in an additional income of £0.29m (18/19 prices) for the year 2023/24, compared to £0.10m (18/19 prices) in the previous year.

Timely Connections

For the period April 2023 to March 2024, 154 connection offers were issued to NGENSO; 100% of the offers issued were in line with our licensed obligations. Of these, 46 (30%) offers were for onshore wind, 54 (35%) were for battery storage alone, and 29 (19%) were for Solar PV. This is a penalty only scheme and we have forecasted a nil penalty for the entire RIIO-T2 price control in line with business targets.

Quality of Connections Satisfaction Survey

The Quality of Connections Satisfaction (QoCS) Survey score is based on connection customer survey responses at six key milestones over the duration of the connection process:

- Pre-Application Engagement
- Application Process & offer
- Development Phase
- Delivery Phase
- Outage Management
- Connected Customer Reviews

For 2023/24 reporting, we achieved over the baseline target (7.7) with an overall Quality of Connections score of 8.6 which is estimated to achieve an incentive reward of £1.8m (18/19 prices). Forecasted incentive rewards

are reflective of a programme of work under way which we are aiming to deliver throughout the remaining period of the price control. This work will involve engaging with customers and stakeholders to develop and adapt ways of working.

SO-TO Optimisation

The System Operator: Transmission Owner (SO:TO) Optimisation is an ODI to encourage the electricity Transmission Owners (TOs) to proactively identify and provide solutions to the Electricity System Operator (ESO) to help reduce constraint costs in accordance with the STCP11-4 procedures. The ODI continues to encourage us to proactively consider solutions in the form of enhanced service provisions that minimise outage impact, and, ultimately, pass cost savings to end consumers.

Under this scheme SSEN Transmission has delivered one project in the 1st year (2021/22), and a second project in the 2nd year (2022/23) of the RIIO-T2 price control period. Whilst no further schemes were installed in financial year 2023/24, the two existing schemes continued to offer substantial consumer benefits in 2023/24 amounting to a combined estimated constraint cost saving of c. £45m, and an actual saving of c. £60m. After deducting a potential incentive for SSEN Transmission, this results in a net consumer benefit of c £54.5m for 2023/24 alone. A third scheme was installed in April 2024 which will be reported in the 2024/25 RRP, with two further schemes in development for consideration in 2025/26. Overall, the performance under this scheme generated an additional income of £3.6m (18/19 prices) for the Company in year 2023/24.

Environmental Scorecard

This table and narrative are not required for year 3 of the RIIO-T2 price control. This is an optional incentive which we have opted not to switch on at present.

Innovation

Network Innovation Allowance (NIA)

The Network Innovation Allowance (NIA) project progress is detailed in the annual summary of NIA activity stipulated by the RIIO-2 NIA Governance Document. The report is available on the Smarter Networks Portal³ and published at SSEN Transmission website⁴.

Throughout 2023/24 we have been engaging in developing further NIA innovation projects to grow the RIIO-2 portfolio. Projects in development are aimed at delivering significant value and cost savings back to the consumer and include addressing the following:

- Alternative insulating gas performance (to SF6)
- Alternative methods for foundation uplift design
- Alternative ice accretion and corrosion mapping methods; and
- Probabilistic modelling for connection studies
- Overhead line alternatives

In 2023/24, SSEN Transmission incurred £1.5m (18/19 prices) of NIA expenditure.

³ SSEN Transmission (2024) “Annual Innovation Summary”, Available at:

<https://smarter.energynetworks.org/media/n5glkrlb/scottish-hydro-electric-transmission-annual-nia-summary-202324.pdf>

⁴ SSEN Transmission (no date) “Innovation”, Available at: <https://www.ssen-transmission.co.uk/about-us/innovation/>

Strategic Innovation Fund (SIF)

Ofgem launched the Strategic Innovation Fund (SIF) for RIIO-T2, a new funding mechanism for networks that aims to find and fund ambitious, innovative projects with the potential to accelerate the transition to net zero. These projects are funded by network users and consumers. Funding is competitive and only awarded to those projects that demonstrate innovation, offer value for money to the consumer and will help deliver net zero in accordance with Government targets

SIF consists of three project Phases:

- Discovery: Feasibility studies to de-risk technical uncertainties associated with the project's area of interest.
- Alpha: Using the findings of the Discovery Phase to develop a proof-of-concept.
- Beta: Develop full-scale demonstrators towards a maturity that either achieves or approaches Business as Usual (BAU)

Details of our ongoing SIF projects are disclosed on the Annual Innovation Summary published on Smarter Networks Portal⁵. Since our last report, we have had a 100% success rate with our SIF applications – progressing two projects into the Beta Phase, three from Discovery to Alpha, and adding three new Discovery projects. In total £4.8m has been awarded to SSEN Transmission for our SIF projects, with SSEN Transmission contributing £517k (average SIF funding of ~89%).

For the year 2023/24, we have incurred £2.1m (18/19 prices) of SIF funding expenditure.

7. Financing and Net Debt

This section details the information provided in the “R5 - Financing” and “R6 - Net Debt” tabs of the RFPR template. The R5 tab reconciles the actual interest cost stated on statutory accounts with the interest cost as per the regulatory definitions. For SSEN Transmission capitalised interest is the primary difference between interest cost in the statutory accounts and the interest cost per the regulatory definition.

The R5 tab further analyses the debt performance of the notional company and the actual company. A notional company is a hypothetical enterprise with financial parameters of an efficient network company that act as a benchmark to TOs. However, according to UKRN guidance recommendation 09⁶ licensees have the freedom to apply their own financing decisions. Companies are therefore incentivised to achieve financing structures which are more efficient compared to the notional structure and are permitted to take on exposures that match their preferences. Therefore, the financial structure of an actual company can be different to the notional company based on individual funding decisions. The actual gearing for SSEN Transmission, however, has generally been in line with the notional gearing set for RIIO-T2, with annual variations due to the timing of expenditure, revenues, and cash flows.

Cost of debt performance analyses the real finance cost and the allowed cost of debt per the last published PCFM. This performance varies across each network due to differences in financing decisions. For example, Ofgem recommended a notional company ratio for fixed vs index linked debt of 70:30 for TOs. However, at the end of financial year 2023/24, 97% of SSEN Transmission's debt comprised of fixed rate debt, providing extra

⁵ SSEN Transmission (2024) “Annual Innovation Summary”, pp. 22-31, Available at:

<https://smarter.energynetworks.org/media/n5glkrlb/scottish-hydro-electric-transmission-annual-nia-summary-202324.pdf>

⁶ UKRN (2023) “UKRN guidance for regulators on the methodology for setting the cost of capita”, p.33, Available at:

https://ukrn.org.uk/app/uploads/2023/03/CoC-guidance_22.03.23.pdf

protection against the high inflationary conditions of recent years. It is also worth highlighting that the methodology does not reflect the cash cost of interest and is rather the economic form of outperformance due to the removal of inflation from the effective interest rates. Furthermore, the methodology does not allow for additional costs of borrowing such as transaction costs, liquidity costs and the impact of issuing longer or shorter-term debt depending on the most appropriate and efficient treasury policy.

SSEN Transmission is estimated to outperform the cost of debt allowance for the RIIO-T2 period at notional gearing. This is mostly owing to the economic benefits achieved from 2022/23 to 2023/24 due to lower effective interest costs from fixed rate debt, which forms 97% of Company debt profile.

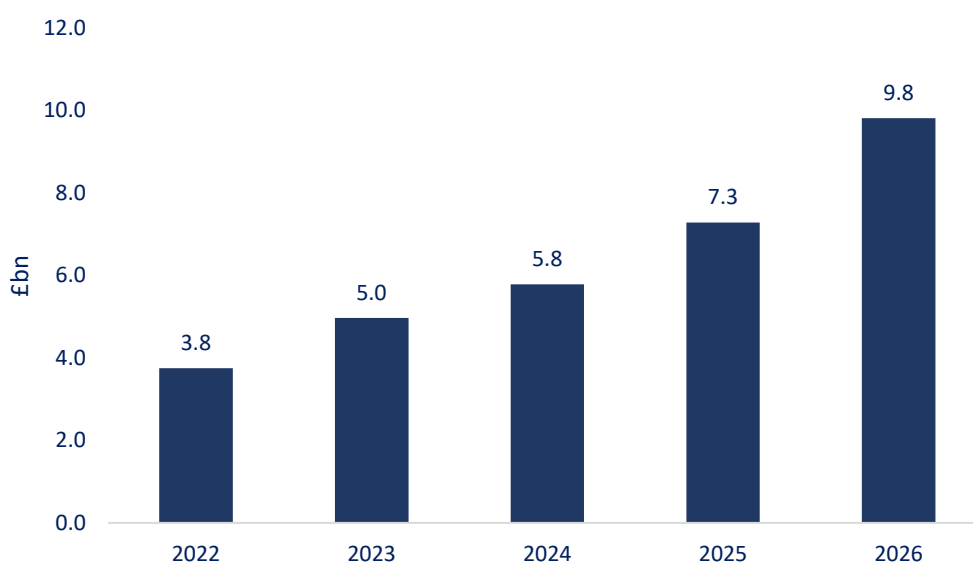
The purpose of the R6 tab is to report annual actual and forecasted Net Debt as per the regulatory definition and reconcile the actual Net Debt with the statutory accounts, for years statutory accounts have been published. The calculation of regulatory gearing is based on the net debt per regulatory definition. Closing net debt per the regulatory definition as well as statutory accounts was £2,750.4m as of end of the 2023/34.

As at 31 March 2024, the weighted average interest rate payable was 3.22% (2023: 2.79%) and the weighted average remaining term was 8.33 years (2023: 6.52 years).

8. RAV

This section includes a summary of “R7 – RAV” tab of the RFP template, that details the annual Regulatory Asset Value (RAV) position based on the outturn and forecasted RAV as per the RIIO-T2 PCFM submitted to Ofgem in September 2024. The totex forecast per the RRP has been reflected in forecast RAV additions, which are calculated based on a set capitalisation rate. EV adjustments have been made to totex, with the impact being reflected in RAV. The EV Methodology in Appendix 1 outlines details of the EV adjustments as well as the basis of assessment. The closing RAV balance is used in deriving actual gearing and the NPV (Net Present Value) neutral equity element of RAV that is used to calculate RoRE.

Figure 4: Estimated RAV at Nominal Prices (£ billion)



As depicted on Figure 4, SSEN Transmission is expected to operate at a £9.8bn RAV in nominal terms by the end of the RIIO-T2 price control period (after accounting for EV adjustments).

9. TAX

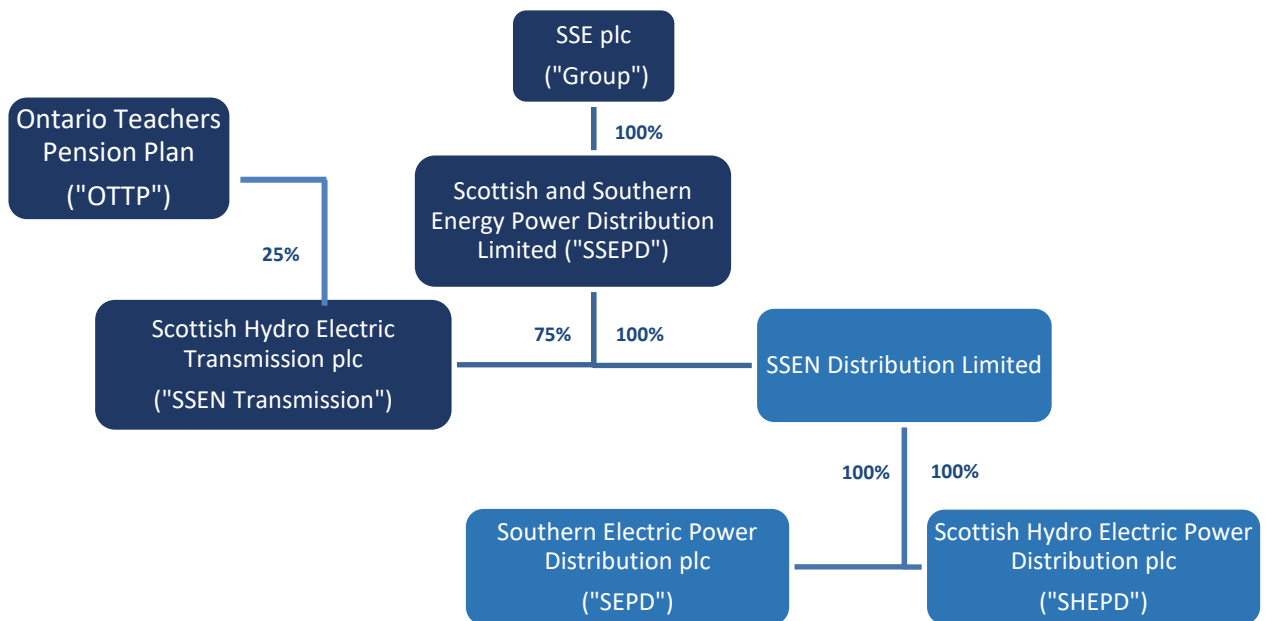
This section details the “R8 – Tax” tab of the RFPR template which calculates the tax over/under performance based on tax payout per the CT600 and the tax allowance passed to consumers, as stated in the PCFM. The tax allowance is calculated through the PCFM, based on a fixed split percentage of tax pool additions, and forecast nominal financing costs (net interest paid). There are several variances between the regulatory allowance and the CT600 tax liability, primarily due to differences between regulatory and statutory accounting treatments.

The CT600 reflects company performance on items both within and outside the price control, including total collected revenue inclusive of an in year over recovery. Other variances relate to differences in regulatory and statutory asset lives and capital allowances. Additionally, the CT600 calculates allowances on the actual annual opening balances of each respective tax pool category whilst the PCFM has not reflected a true up on opening balances since the commencement of RIIO-T2. The 2024 CT600 is not yet due for submission to HMRC, consequently the regulated tax liability for 2023/24 and beyond are forecasts aligned to the estimated tax paid as stated in the PCFM submitted to Ofgem in September 2024.

10. Corporate Governance

The purpose of this section is to provide details on licensee’s corporate governance structure including its ownership, composition of the Board, key decision-making responsibilities, executive remunerations, and dividend policies.

Figure 5: Summarised Corporate Structure



SSEN Transmission is owned by Scottish and Southern Energy Power Distribution Limited (SSEPD) and Ontario Teachers’ Pension Plan with stakes of 75% and 25% respectively. SSEPD also owns a 100% stake of SSEN Distribution Limited, under which Scottish Hydro Electric Power Distribution plc (SHEPD) and Southern Electric Power Distribution plc (SEPD) operate. The immediate parent of SSEPD is SSE plc (the “Group”) with a 100% stake and a 75% stake of SSEN Transmission. The Company owns and operates the Electricity Transmission network in the north of Scotland.

As at 31 March 2024, the Company Board comprised of two Executive Directors and seven Non-Executive Directors one of whom is the Chair of the Company Board, and was an Executive Director of the SSE plc Board and member of the Group Executive Committee until December 2023. None of the Directors are Directors of Group Companies involved in Retail or Wholesale activities. Two of the Non-Executive Directors on the Board during the course of the financial year were Sufficiently Independent Non-Executive Directors as required under the terms of Standard Condition B22 of the Company’s regulatory licence. The Directors believe that the Company Board is an appropriate size and has a good balance of independence and experience, ensuring that no one individual or group of individuals has undue influence over the Company Board’s decision making.

Table 3: Board of Directors

Name	Type	Appointment Date
Gregor Alexander	Non-Executive Director (Chairman)	1 October 2002
Rob McDonald	Executive Director (Managing Director)	31 January 2019
Maz Alkirwi	Executive Director	23 February 2021
Charlotte Brunning	Non-Executive Director	22 December 2022
Charles Thomazi	Non-Executive Director	30 November 2022
Rachel McEwen	Non-Executive Director	27 May 2016
Ronald Fleming	Non-Executive Director	30 November 2022
Laura Sandys	Sufficiently Independent Non-Executive Director	1 February 2022
Gary Steel	Sufficiently Independent Non-Executive Director	1 April 2014

The Executive Directors are experienced senior business leaders and are deemed to possess the appropriate breadth of knowledge and expertise to discharge their role effectively. One of the executive directors is fully assigned to regulated businesses while, Managing Director of the SSEN Transmission Board; Rob McDonald serves on the Group Executive Committee of the SSE plc.

The Non-Executive Directors provide an appropriate degree of independent judgement and challenge to ensure balanced and fair decision-making and outcomes. The operation and effectiveness of the Board is the ultimate responsibility of the Chair, who is supported in their role by the Company Secretary. Agreed procedures are in place to manage and mitigate actual or potential conflicts of interest with Board or Company business.

The Board presides over matters including the Company’s purpose, value and strategy, as well as dividend policy. The Board does not have a supporting Nomination, Remuneration or Audit Committee. These functions are dealt with, where required, in conjunction with the relevant committee of the SSE plc Board. Details on these committees are disclosed in Annual Report of the SSE plc available on SSE plc website⁷. Table 4 elaborates on the decision-making across the governance hierarchy.

Table 4: Decision Making Responsibilities within the Group

Decision	Narrative on who hold the responsibility
Purpose, values and strategy	SSEN Transmission work within the purpose, values and strategy of the Ultimate Controller; SSE plc. SSEN Transmission Board is responsible for the oversight.
Board director nominations	Changes to the structure, size and composition of the Board are matters reserved to the SSEN Transmission Board. In accordance with the Company’s Articles of

⁷ SSE plc (2024) “SSE plc Annual Report 2024), pp.138-177, Available at: https://www.sse.com/media/0aibgke4/sse_ar24_interactive.pdf

Decision	Narrative on who hold the responsibility
	Association, the Company's Ultimate Controller, SSE plc may appoint and remove directors by ordinary resolution.
Board director evaluation	The Board evaluation process is a matter reserved for the SSEN Transmission Board. Separately to the Company, the Board of the Ultimate Controller complies with the provisions of the UK Corporate Governance Code in relation to its own evaluation.
Executive remuneration	Executive remuneration is a matter reserved to the Board of the Ultimate Controller.
Dividend policy	Dividend policy is a matter reserved to the SSEN Transmission Board. The Company will consult with the Board of the Ultimate Controller to form group dividend policy but the ultimate decision, in line with the Companies Act, rests with the Board of Directors of the Company.

The Board has delegated its responsibilities on day-to-day operational decisions to the Transmission Executive Committee. Both executive directors are members of this committee while other members include the senior management representing different aspect of the business.

On appointment all Directors receive induction to the Board and briefings on areas pertinent to their role such as a director's legal duties. The ongoing effectiveness of the Board is supported by performance evaluation and a commitment to personal development and training by each Director.

Regular Board evaluation is facilitated by the Company Secretary, through which the Director's reflect upon, and agree, areas for improvement based on an objective assessment of the Board's operations. Following such assessments, actions are implemented and tracked in advance of further performance evaluations in 2024/25.

Executive Remuneration Policies

The SSE plc Group's Remuneration Committee is responsible for setting the pay for members of the Group Executive Committee (GEC) and reviewing the remuneration arrangements for all employees across the Group. The GEC includes the Managing Director of Transmission. The details of how the Remuneration Committee operates is disclosed in the Directors' Remuneration Report in the SSE plc Annual Report⁸.

The Remuneration Committee has responsibility for overseeing pay in SSEN Transmission. Pay and remuneration is based on the following elements:

- The senior management population participate in annual and long-term incentive arrangements. In line with Executive Directors' arrangements, incentives for senior management have an emphasis on share awards
- All employees have the opportunity to be share owners through the Share Incentive Plan and the Sharesave Plan and those participating are able to express their views in the same way as other shareholders

⁸ SSE plc (2024) "SSE plc Annual Report 2024), pp.158-177, Available at: https://www.sse.com/media/0aibgke4/sse_ar24_interactive.pdf

- Pension planning is an important part of SSE’s reward strategy for all employees because it is consistent with the long-term goals and horizons of the business, an approach it has been practising for a number of years. The terms of the funded final salary pension schemes apply equally to all members
- As part of its Employee Engagement Survey (“Great Place to Work”) SSE invites all employees to provide a view on the benefits and pay that it provides

The Remuneration Committee keeps these arrangements under constant review. As directed by SSE’s Remuneration Committee, 20% of the total Annual Incentive Plan (AIP) for Executive Directors is determined by the progress made in meeting SSE’s four 2030 Business Goals which are focused on addressing the challenge of climate change. For SSEN Transmission, there is close alignment with the long-term goals of SSE: supporting renewable output, and championing fair tax and the real Living Wage. Individual performance in Transmission is measured against these goals along with other factors such as health and safety, licence compliance, business plan outputs and stakeholder engagement.

The Remuneration Committee appreciates the importance of an appropriate relationship between the remuneration levels of the Executive Directors, senior executives, managers and other employees within the SSE Group, although comparison metrics are not used to determine pay policy. Remuneration at all levels is designed to be consistent with the Group’s core remuneration principles, long-term business strategy and, for Transmission, the goals set out in our business plan. More information on the basis of pay determination can be found in Table 5.

Table 5: Remuneration Arrangements, SSE Group

Board Sub Committee	Base Salary	Benefits	Pension	Short-Term Incentives	Long-Term Incentives
Executive Directors	Typically set with reference to the market and wider workforce considerations. Annual increases are typically in line with or less than the wider employee population.	A range of voluntary benefits in line with the wider workforce plus contractual car and private medical benefits.	All employees are a member of the SHEPS or SEPS defined benefit pension scheme, or the Pension+ defined contribution scheme unless	Annual Incentive Plan linked directly to business performance – 50% financial, 50% non-financial. 33% of the total award is deferred as career shares.	The Performance Share Plan is a share award with performance linked to strategic performance measures.
Group Executive Committee and Senior Management	Set with reference to the market and wider workforce considerations. Annual increases are typically in line with or less than the wider employee population.	A range of voluntary benefits in line with the wider workforce plus contractual car and private medical benefits.	they have opted or cashed out. The arrangements are diverse, and the employer cost typically ranges from 3% to 38% of salary when both defined	Annual incentive Plan considering performance of the Group (directly linked to the above), the business area and the individual. 25% of the total award is deferred as shares for three years.	The Leadership share plan is also linked to strategic performance measures over the longer-term and those with direct impact on strategic output are eligible.

Board Sub Committee	Base Salary	Benefits	Pension	Short-Term Incentives	Long-Term Incentives
Wider Workforce	Base salary levels are subject to negotiation with recognised trade unions and/or are set in line with market requirements. Annual increases are subject to negotiation.	A range of voluntary benefits are available to all employees, such as a cycle to work scheme, a holiday purchase scheme, health benefits, and enhanced maternity, paternity and adoption leave.	contribution and defined benefits schemes are taken into account.	Depending on role, a proportion of employees will participate in the Annual Incentive Plan (as above). 100% of the award is paid in cash.	All employees may participate in the Share Incentive Plan (SSE matches three shares for every three bought) and the Sharesave (SAYE) plan.

Dividends

Our dividend policy is based on a range of factors considered by the Board of Directors including delivering our business plan, maintaining our investment grade credit rating, complying with regulations, and providing an appropriate rate of return to shareholders. Given the significant capital investment planned in the RIIO-T2 business plan as well as other future investments, our dividend policy must have the capability to flex with these requirements such that shareholders will see cash dividends over the period in line with their required rate of return. The effect of this is that in some years, we may pay relatively low or zero dividends, and in other years we might pay higher dividends in line with standard treasury and cash flow management practices. Under our dividend policy, we consider the following factors on an annual basis prior to declaring a dividend:

- Availability of Resources for operating in the coming 12 months
- Company viability over the forthcoming three years in line with the UK Corporate Governance Code
- Maintaining investment grade credit rating including raising external borrowings at an appropriate credit rating
- Planned and committed capital investments
- Financial performance and the required return by shareholders
- The impact on customers of a dividend being paid including attracting and retaining investment to deliver our business plan

All dividends are approved by the Board of Directors prior to payment. SSEN Transmission has not paid dividends since financial year 2018/19.

11. Pensions

Pension allowances are in line with the Pensions Reasonableness Review submitted in September 2023. The figures in R10 Pensions & Other Activities reflect the total of established and incremental TO costs associated with the Scottish Hydro Electric Pension Scheme (SHEPS). The actual surplus values are then compared to the

allowance values that were derived from the latest Triennial actuarial valuation which took place on the 31/03/22. Pension allowances do not directly affect the RoRE or RoR, except as part of a component of totex expenditure for ongoing service contributions.

12. Data Assurance Statement

This submission has been completed in line with the Data Assurance Requirements Standard Licence Condition B23. A Risk Assessment was conducted, and the Total Risk Rating was Low. The appropriate level of assurance activities has been employed commensurate with this risk rating including a submission plan, methodology and appropriate level of review and sign off.

Appendix 1 - Enduring Value Methodology

The Enduring Value (EV) Methodology is based on a fundamental review of each licensee's regulatory price control, outputs, totex allowances and expenditure. SSEN Transmission's approach to making EV adjustments is underpinned by a consistent approach in applying the principles of RoRE and the underlying drivers of the price control. Only adjustments that are considered material in nature to the outcome of RIIO-T2 are considered to be appropriate in order to avoid overcomplicating the RFPR unnecessarily whereby the full price control performance is most relevant compared to in-year or year-on-year performance. Therefore, SSEN Transmission has focused primarily on price control Network Output Measures (NOMs) as known at the time of preparation of the RFPR and the known or expected outcome of submitted regulatory reopeners.

The assumptions for EV adjustments have been prepared consistently with the 2023/24 RRP submissions. Any EV adjustments are based on the assumptions by SSEN Transmission management at the time of preparing the RFPR and RRP and are subject to change as matters arise and circumstances change during the price control.

The methodology and approach considered for EV in the RFPR has been summarised below. This outlines how, in future years, SSEN Transmission will consider these factors when preparing the RFPR. The EV Methodology will be reviewed annually for appropriateness as part of preparing the RFPR.

For SSEN Transmission the RIIO-T2 price control is in its third year and RIIO T1 close out methodologies were finalised by Ofgem. SSEN Transmission has adopted the following approach and considerations in relation to the EV adjustment:

- **RIIO-T1 Legacy Outputs and expenditure** – There are a number of RIIO-T1 projects and related expenditure spanning from the final years of RIIO-T1 into the first years of RIIO-2. These are primarily in relation to Generation Connections driven infrastructure which complete in RIIO-2 (pre-31 March 2023). Adjustments have been made to remove expenditure and allowance for the delivery of load related RIIO-1 projects whereby the completion of the output falls within the first two years of the T2 period. This is in line with the RIIO-2 Final Determination.
- **T1/T2 Volume Driver Crossover Projects** – There is spend and allowances associated with RIIO-T1 volume driver projects which deliver outputs in the first two years of RIIO-T2 have been excluded from our RIIO-T2 reported performance as these have also been accounted for within RIIO-T1 reported performance.
- **T2/T3 volume driver** – Allowances are included for T2/T3 volume driver projects that connect within the crossover period (first year of RIIO- T3).
- **Sole use exit/entry connections** –The sole use exit connections allowance will be trued-up to actuals at the end of RIIO-T2. Sole use entry connections will also be treated in the same way as well as the forecasted income deducted from base revenue in the PCFM. There is therefore an EV adjustment within the RFPR to reflect the allowances to actual for both sole use exit and entry connections.
- **T1 Visual Amenity** - We have made an adjustment for the RIIO-T2 overspend on Glen Falloch (T1 approved scheme) as performance has also been accounted for within RIIO-T1 reported performance.
- **T3 schemes** - We have made an adjustment to exclude certain costs from our RIIO-T2 performance which relate to future T3 connection schemes that are unlikely to go ahead. If these are cancelled, costs would be recovered directly from the customer. If these go ahead, these will likely form part of the RIIO-T3 or RIIO-T4 settlement.

- **RPE Adjustment** – The revenue allowance in the latest published PCFM has an estimate in excess of internal analysis and we have therefore factored in the difference between estimate and allowance as an enduring value adjustment.

No EV adjustments have been considered for incentive mechanisms for RII0-T2. This has been deemed out of scope and is based on earned in year calculations or awards.

Appendix 2 - Basis of any Estimates and Allocations

Estimates are restricted to forecast information. Forecasts have been constructed as follows:

Totex – forecasts match the latest 2023/24 submitted RRP (Submitted to Ofgem on 30 September 2024, alongside the Dry Run 01 of the PCFM). Within the reconciliation to totex, the 'Other' line includes elements of rounding in line with the materiality agreed with Ofgem.

Incentives – forecasts are based on of the average incentives earned for the price control period to date as well as taking account of the future targets which licensees have set to the end of the price control. Incentives earned in year are based on the same model, with the 2-year lag and inflation adjusted out.

Innovation – forecasts are based on the average innovation revenues for the price control period to date.

Financing – forecasts for interest on existing debt are based on SSE Treasury forecasts of interest payable based on the expected interest rate for each instrument. Forecast interest cost for new debt is based on the value of new debt multiplied by the price control cost of debt for the relevant year.

Net debt – forecasts for existing debt are based on SSE Treasury forecasts of the movement in debt based on the arrangements in place.

Tax – forecast tax liability is based on the proportion of the average adjusted actual tax liability for the price control to date versus the forecast regulated profit for the remainder of the price control period.