

PR24 draft methodology webinar – business plan incentives

July 2022

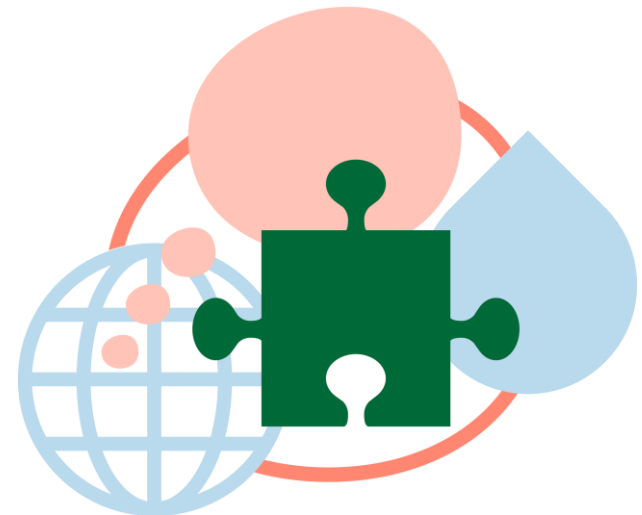
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Our PR24 draft methodology includes business plan incentives for companies to submit quality and ambitious plans.

We propose:

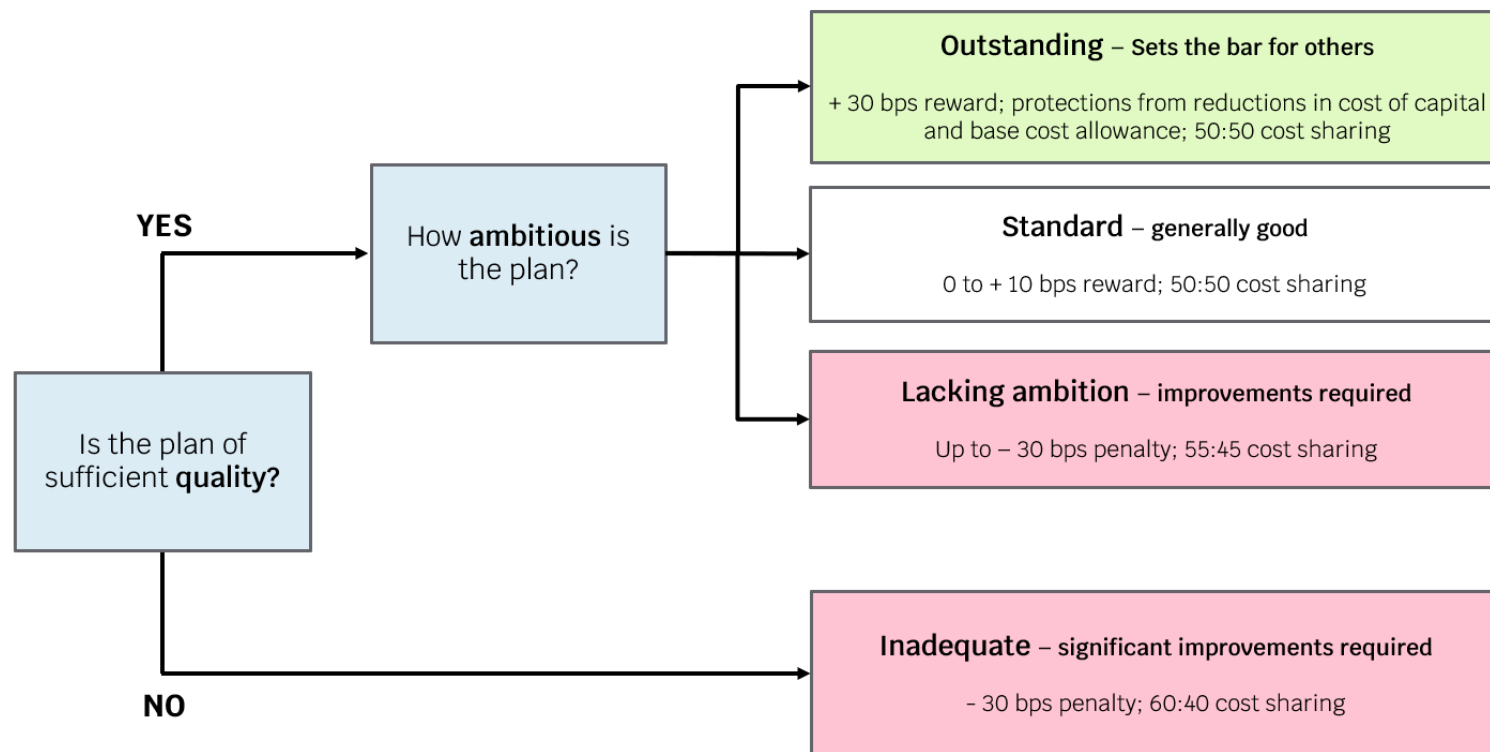
- A combination of **reputational, financial and procedural** rewards and penalties
- **Rewards** for ambitious plans
- **Penalties** for plans which are of insufficient quality or lack ambition
- Assessment runs in **parallel with draft determination phase**
- **First submission** has very significant influence on final reward or penalty



Determining business plan incentive rewards and penalties

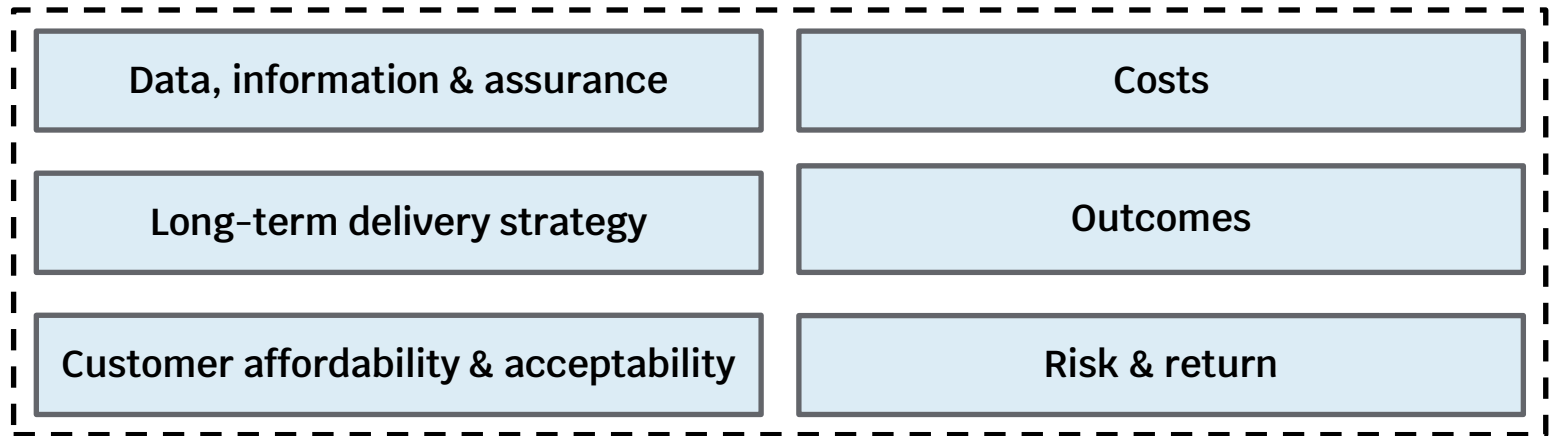
Our proposed assessment will consider plan ‘quality’ then ‘ambition’:

- Quality plans will receive rewards or penalties dependent on the ambition they demonstrate.
- Plans of insufficient quality will incur the greatest penalties and will not be eligible for rewards, or further penalties, in our ambition assessment



Quality assessment

We propose to assess plan 'quality' in six areas:



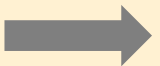
Our draft methodology sets 'minimum expectations for quality plans':

- Quality plans will meet these expectations in the round.
- Every company should be able to achieve this standard.

A company that does not provide a quality plan will:

- Be rated '**inadequate**' and need to make **significant improvements**
- Incur a penalty equivalent to - **30 bps RoRE** during 2025-30
- Receive **60:40 cost sharing** rates

Companies that provide a quality plan will receive rewards or penalties dependent on ambition demonstrated



Ambition assessment

Our ambition assessment will consider whether plans:

1. include **stretching but achievable levels of service at an efficient cost** to customers, therefore demonstrating overall value for money
2. Enhance affordability by demonstrating they have **understood and reflected customers' preferences and proposing high value or innovative support**, eg sharing outperformance

We will not reward proposals that enhance affordability unless we consider the overall plan is value for money.

For companies with a quality plan, rewards or penalties will be dependent on ambition demonstrated:

Outstanding – sets the bar for others

+ 30 bps RoRE reward
Protection from reduction
in allowed return and base
cost allowance
50:50 cost sharing

Standard – generally good

0 to + 10 bps RoRE reward
50:50 cost sharing

Lacking ambition – improvements required

Up to – 30 bps RoRE penalty
55:45 cost sharing

Time for clarifying questions

