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OFGEM PROPOSES INVESTMENT BOOST FOR BRITAIN'S ENERGY NETWORKS

- **More than £4 billion investment proposed in Britain's energy networks to connect renewables, gas import projects and to replace infrastructure**
- **Impact on domestic customer bills will be limited as transmission costs only represent between 2 and 3 per cent of an energy bill**
- **Proposals to reduce barriers preventing viable renewable projects getting connected**
- **Investment will ensure customers continue to see high standards of reliability from the networks**

Britain's gas and electricity transmission* networks are expected to invest more than £4 billion over the next five years following initial proposals published today (Monday) by energy regulator, Ofgem.

This level of investment is required to meet consumer energy needs. It will enable the four companies which run the networks to adapt to change by connecting more renewable energy and new gas import projects including pipelines and terminals. The proposals are being made as part of Ofgem's review of the prices the four transmission companies are allowed to charge users of their networks between 2007 and 2012.

Ofgem Chief Executive, Alistair Buchanan, said: "Britain's energy networks face huge challenges over the next five years to respond to changes in the sources of our gas and power. A variety of import projects to bring gas from areas across the world are being built and there are also proposals to greatly increase the amount of electricity sourced from renewables.

"However, there is uncertainty about when projects may be completed and where exactly investment is needed. Therefore, Ofgem is proposing price controls which will have significant flexibility to allow the companies to invest efficiently when necessary and in a way that best protects customer interests. The investment will also mean the companies can continue to maintain Britain's energy networks, which are among the most reliable in the world."

The proposals may result in almost double the amount of investment in the networks that was allowed in the previous five-year price controls. Given the challenges facing the energy networks, the price controls will also ensure the companies are able to make additional investments to connect viable gas import or renewable electricity projects when commitments from users demonstrate this need.

The proposals also address the need for companies to replace infrastructure, particularly electricity network equipment, so that current high levels of reliability can

be maintained. The impact of the proposals on customer bills is likely to be minimal as transmission costs make up just three per cent of a household electricity bill and two per cent of a household gas bill.

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** transmission networks are the high-voltage electricity network and high pressure gas pipeline networks which are used to move energy around the country.*

Notes to editors

1. Ofgem is reviewing the price controls for the four electricity and gas transmission companies which own Britain's high-voltage networks and the high pressure gas transportation system. The consultation process for the price control review will be completed at the end of this year, following the publication of Ofgem's final proposals in December. The finalised controls will then take effect from April 2007. The companies involved are:

- National Grid Electricity Transmission (NGET)
- National Grid Gas NTS (National Transmission System)
- Scottish Power Transmission Limited
- Scottish Hydro-Electric Transmission Limited.
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2. The timeline for the remainder of the review is as follows:

- June 26 2006: initial proposals
- September 2006: Draft proposals
- November 2006: Final proposals

The agreed price controls will take effect from April 1 2007 until 31 March 2012

The initial proposals document has been published today on the Ofgem website www.ofgem.gov.uk

3. Capital expenditure

As part of the review process Ofgem has carefully considered each company's forecasted capital expenditure for 2007-2012 (ie the amount they wish to invest in their networks to accommodate new renewable generation, gas import capacity and

replacement of infrastructure). The table below summarises Ofgem's current assessment of their spending requirements:

	National Grid Gas NTS	National Grid Electricity Transmission Ltd	Scottish Power Transmission Limited	Scottish Hydro-Electric Transmission Limited.	Total
Ofgem's capital expenditure proposals for 2007-2012	£737 million	£2.791 billion	£555 million	£164 million	
					£4.25 billion
Illustration of additional investment to accommodate new potential projects*					£750 million
Grand total					£5.0 billion

* As part of the review Ofgem is also proposing to introduce mechanisms to adjust the companies' revenue allowances automatically, either up or down, in response to the needs of users of the networks. There is uncertainty over when some renewable generation or gas import projects will be completed. If these projects do go ahead then the price controls will allow the transmission companies to make additional investments. A reasonable scenario of additional projects could result in total capital expenditure allowance for all four companies of around £5 billion.

4. Cost of capital

Cost of capital sets the allowed rate of return the companies can recoup when they invest in their networks. For modelling purposes, and to provide a reference point for consultation responses, Ofgem has currently adopted a real post-tax cost of capital of 4.2% for all four companies. Ofgem will not finalise its view on the appropriate levels of return until the price control final proposals in November. The 4.2% figure reflects several factors including generally low real interest rates which make it cheaper for companies to borrow money to invest in developing their networks.

5. A further issue which will impact on Ofgem's price control review is the Government's Energy Review, which will set out Britain's future energy policy.

6. Ofgem is the Office of the Gas and Electricity Markets, which supports the Gas and Electricity Markets Authority, the regulator of the gas and electricity industries in Great Britain. Ofgem's aim is to bring choice and value to all gas and electricity customers by promoting competition and regulating monopolies. The Authority's powers are provided for under the Gas Act 1986, the Electricity Act 1989 and the Utilities Act 2000.

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