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MAKING BRITAIN'S ENERGY TRANSMISSION NETWORKS MORE SUSTAINABLE

As part of its final proposals for energy transmission price controls published today (Monday), energy regulator Ofgem has unveiled initiatives which will make the networks more sustainable.

The price controls for the four gas and electricity transmission companies will determine how much they can charge users of their networks between 2007 and 2012. The review to determine the price controls has been conducted against a background of significant change for Britain's transmission networks including growth in low-carbon generation and the need to import more gas.

The price controls allow for £5 billion to be invested in the transmission networks which will maintain high levels of performance by replacing ageing assets. It will also help connect low-carbon generators and gas infrastructure projects. This figure includes £530 million that Ofgem has already approved for essential network investment to connect new low-carbon generation in Scotland and northern England.

The controls will be flexible enough to allow the companies to make further investment on top of this £5 billion to respond to future demand from customers. This need arises from uncertainty over when some low-carbon generation or gas infrastructure projects will be completed. If these projects do go ahead then the companies can make additional investments.

Two important initiatives have been proposed to tackle the impact the transmission systems have on the environment:

- An innovation funding incentive will encourage them to invest 0.5 per cent of their revenue in research and development for programmes targeted on environmental improvement. This equates to a minimum of £500,000 per year for each company. In electricity, research and development may, for example, include examining alternative designs for pylons so that their visual impact could be reduced.
- Another incentive will encourage the network businesses to reduce leakage of sulphur hexafluoride – a potent greenhouse gas used in high-voltage apparatus.

Ofgem is also tackling concerns that viable low-carbon electricity generation projects which are ready to proceed may face delays in obtaining network connections. Fourteen gigawatts of low-carbon generation, mainly in Scotland, have been proposed, but these projects are at varying degrees of development and many still need to obtain planning permission.

Ofgem's proposed approach is that generators should be required to confirm their readiness to proceed by making a financial commitment to pay transmission charges prior to a connection being built. This new initiative could remove the need for the financial guarantees that generators currently have to provide to secure their connection. The price control would then automatically respond to provide funding for the necessary investment in the network. The industry is now developing this

approach into proposals for changing the codes of practice which govern connections to electricity networks.

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Notes to editors

1. Ofgem has reviewed the price controls for the four electricity and gas transmission companies which own Britain's high-voltage national networks and the national gas pipelines:

- National Grid Electricity Transmission (NGET)
- National Grid Gas NTS (National Transmission System)
- Scottish Power Transmission Limited (SPTL)
- Scottish Hydro-Electric Transmission Limited (SHETL)

The companies have until January 8, 2007 to respond to the final proposals. The final controls will then take effect from 1 April 2007 and run to 31 March 2012. Full details of the final proposals have been published on the Ofgem website www.ofgem.gov.uk. They are also summarised in the press release: '100 per cent increase in investment in Britain's energy networks' also published in the press releases section of the website.

2. 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. The Authority's functions are set out mainly in the Gas Act 1986, the Electricity Act 1989, the Competition Act 1998 and the Utilities Act 2000. In this note, the functions of the Authority under all the relevant Acts are, for simplicity, described as the functions of Ofgem.

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