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EMBARGOED UNTIL 07.00 HOURS ON MONDAY 4 DECEMBER 2006

100 PERCENT INCREASE IN INVESTMENT IN BRITAIN'S ENERGY NETWORKS

- **More than £5 billion authorised by Ofgem for investment in Britain's electricity and gas transmission systems**
- **Investment will maintain the networks' high levels of performance and reliability**
- **Post-tax rate of return on capital of 4.4 per cent (post-tax real) to attract new investment**
- **Safety net to be put in place to protect customers if companies under-invest**

Energy regulator Ofgem continues to pave the way for upgrading Britain's energy networks by authorising funding for more than £5 billion of investment in Britain's gas and electricity transmission systems over the next five years.

This unprecedented 100 per cent increase in authorised investment, since the last price controls were set, will enable network operators to maintain the current high levels of performance of their networks by replacing ageing assets. It will also help Britain meet climate change objectives by connecting and delivering more low-carbon generation. Greater security will also be brought to the nation's gas supplies by building and improving connections to new import and storage facilities to the national gas network.

Ofgem is proposing a 4.4 per cent rate of return on capital in the price control and believes there is scope for companies to out-perform the price control by running their networks more efficiently. The price control is also flexible and automatically allows the companies to earn more revenue in response to an increase in demand for connections to the transmission networks.

Ofgem Chairman, Sir John Mogg, said: "Investment in the backbone of Britain's gas and electricity networks is vital to maintain high levels of reliability and secure supplies for customers. It also meets the challenge of developing a sustainable policy for the climate change agenda, notably for the connection of low-carbon generation.

"Throughout the review Ofgem has sought to protect customers, who ultimately must pay for such investments, by scrutinising the companies' investment proposals and operating costs to make sure that the plans represent good value for money. A £5 billion investment programme is authorised by Ofgem between 2007 and 2012 – a 100 percent increase on the companies' allowances over the last five year price control periods."

Ofgem is also putting in place a safety net to protect customers against any substantial shortfall in investment against the companies' plans. If a company's investment falls 20 per cent below the amount allowed we will be able to review whether the allowances remain appropriate.

To fund these investments, overall transmission charges to consumers will initially increase by 8 per cent against the current revenue allowances for 2006-2007. To reflect rising investment

levels electricity transmission revenues will then increase by a further 2 per cent above the rate of inflation each year thereafter, while gas transmission revenues will increase in line with inflation. The effect on domestic customers will however be relatively small as transmission makes up only 3 percent of household energy bills.

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Notes to editors

1. **Sustainable development.** Ofgem has set out in a separate Information Note *Making Britain's energy transmission networks more sustainable*, how the price control will help develop a sustainable energy industry in more detail. It has also published a factsheet which provides more details of the price control. Copies are available from the Ofgem website on www.ofgem.gov.uk.

2. 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 pipeline:

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

3. The companies have until January 8, 2007 to respond to the final proposals. If accepted by the companies the finalised controls will then take effect from 1 April 2007 and run to 31 March 2012.

4. Capital expenditure:

The table below summarises Ofgem's final proposals for the companies' capital expenditure requirements:

National Grid Gas NTS	National Grid Electricity Transmission Ltd	Scottish Power Transmission Limited	Scottish Hydro-Electric Transmission Limited	Total
£825m	£2997m	£608m	£181m	£4.6bn
Already agreed investment to connect new low-carbon generation during the price control period			£530m – already authorised under the Transmission Investment for Renewable Generation regime in 2004.	
Grand total			£5.1bn	

5. Flexibility in the price control:

As part of the review Ofgem is also introducing new flexible mechanisms enabling it to adjust the companies' revenue allowances, either up or down, in response to the needs of users of the networks. The need for this arises from uncertainty over which low-carbon generation or gas import projects will go ahead and when they will be completed. If these projects do go ahead then the flexibility will allow the transmission companies to make additional

investments. If the companies' high case estimates prove correct, this could add a further £1 billion of investment, potentially increasing the total to as much as £6 billion.

6. The safety net mechanism:

To safeguard consumers against any under-investment, if a company's investment falls by more than 20 per cent below its allowance in any year, this will trigger an automatic review of its capital expenditure allowance.

7. Cost of capital:

Ofgem sets the allowed rate of return the companies can recoup when they invest in their networks. Ofgem has proposed a real post-tax cost of capital of 4.4 % for all four companies. This is lower than the 4.8% set for the electricity distribution companies in the light of continuing evidence of relatively low interest rates.

8. Ofgem has also today published its final proposals for the gas distribution one year price control (2007-2008). It was decided to extend the current five-year control by one year to 31 March 2008 to provide a more balanced workload for companies and Ofgem. The one year control also creates an opportunity for Ofgem to review an additional year's data from National Grid and the new owners of four of the networks when setting the main control.

9. 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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