

Press Release

TUESDAY NOVEMBER 3 2009

REGULATOR PROPOSES POSSIBLE £1bn INJECTION INTO GREEN GRID INVESTMENT

- **Ofgem proposes a common sense approach to ensure investment to support emission reduction plans while shielding customers from unnecessary costs**
- **By 2012, funding could deliver about 20 per cent of a ten-year investment programme.**
- **Over 70 per cent of this investment by 2012 is targeted in Scotland**

Energy regulator Ofgem has proposed funding arrangements of up to £1bn over the next two years for electricity transmission grid projects that are vital in Britain's bid to combat climate change.

This initiative addresses the need for investment in transmission infrastructure to connect new wind farms and other renewable generation. The regulator has proposed arrangements that are pitched to ensure progress for the most urgently needed projects, while protecting the consumer from unnecessary costs.

The proposed arrangements, could amount to a 20 per cent down payment on the investment needed over the next ten years if all projects meet planning and other criteria. Over 70 per cent of that investment is earmarked for Scotland. This underlines Ofgem's commitment to helping the achievement of sustainable development.

The remaining 80 per cent of the ten-year investment programme will fall into a period of new regulatory controls which come into play when the current controls run out in 2012. Ofgem will decide on arrangements for that investment once the new regime is in place. This will avoid the risk of committing to arrangements that expose consumers to unnecessary costs.

Ofgem chief executive Alistair Buchanan said: "Ofgem has put forward a plan that could inject up to £1 billion into national electricity grid investment. This is needed urgently to handle growth in wind power and other renewable generation that is arising from Britain's drive to curb climate changing emissions.

"Our proposals provide a common-sense solution that meets urgent investment needs. And it holds off on decisions that could place an unwarranted burden on consumers through over generous allowances. Once the next review of the industry's transmission revenue allowances is underway we will be able to look at the rest of this investment."

Based on the current investment plans of the transmission companies, Government targets for reducing carbon emissions by 2020 could require investment totalling about

£5 billion over the next ten years. Today's proposals could deliver up to a fifth of that sum by 2012.

Meanwhile preparations are underway for the next period of regulatory controls (price controls) for the energy transmission companies. And a project analysing the regime governing all of Ofgem's regulatory controls will conclude in 2010. This project – RPI-X@20 - could change radically the way all networks, including transmission grids, are regulated in future.

Notes to editors

1. The three electricity transmission companies are National Grid Electricity Transmission Limited (NGET), SP Transmission Limited (SPTL) and Scottish Hydro-Electric Transmission Limited (SHETL). They are subject to controls on their revenue (price controls) which are reviewed every five years. The current price control - Transmission Price Control Review 4 (TPCR4) runs to March 31 2012.
2. Ofgem is in the last stages of a two-year review of the 20-years-old incentive regime that forms the basis of its regulatory thinking. The regime ties revenue and expenditure growth to the retail price index (RPI) plus or minus X percentage points. That scheme has delivered cost reductions and better service to consumers. The review RPI-X@20 will consider all options to make sure the future regime is fit for purpose in the current energy market conditions.
3. The transmission companies have put forward proposals for 20 transmission investment projects spread over the next ten years totalling some £5 billion. They will add more than 60 per cent to the total regulatory asset value of the companies. About £1 billion relates to expenditure before the end of TPCR4, of which over 70 per cent is in Scotland.
4. Our initial proposals published today address the need to allow funding of critical projects, while recognising the uncertainty surrounding the need for some of the investments and the prospect of change which may arise as a result of the RPI-X@20 review. We propose to fund costs incurred up to the end of TPCR4 in relation to specific projects, with future funding to be addressed as part of the next price control review process. We will continue to scrutinise the case for funding individual projects before setting out our final proposals this winter.
5. In determining the scope of funding for individual projects we will consider the prevailing needs for the project and the current state of progress by the transmission company. We propose to identify a list of projects which will be eligible for funding.
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. The Authority's powers and duties are largely provided for in statute, principally the Gas Act 1986, the Electricity Act 1989, the Utilities Act 2000, the Competition Act 1998, the Enterprise Act 2002, the Energy Act 2004 as well as arising from directly effective European Community legislation.

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