

Press Release

Monday 16 July 2012

OFGEM CONSULTS ON £22 BILLION INVESTMENT PLANS TO UPGRADE BRITAIN'S GAS AND HIGH VOLTAGE ELECTRICITY NETWORKS

- **Around £22 billion allocated to upgrade and renew Britain's gas and high voltage electricity networks. This will ensure that Britain's networks remain among the most reliable in the world**
- **Investment is integral to secure Britain's future energy supplies and is part of the £200 billion identified as part of Ofgem's Project Discovery regarding security of supply**
- **Ofgem's close scrutiny of companies' plans secures project investment and ensures value for consumers**

Ofgem is today announcing proposals to upgrade and renew Britain's electricity and gas networks. These include funding £17 billion of investment with around a further £5 billion potentially available over the course of the price control period (1 April 2013 – 2021).

The majority of the proposed investment, around £15 billion, would include the upgrade and renewal of the high voltage electricity network in England and Wales and the high pressure gas networks across Britain. These networks are operated by National Grid and the package would fund major projects such as new sub-sea electricity cables linking England/Wales and Scotland. The building of these critical infrastructure projects could create around 7,000 jobs, mainly in the construction supply chain.

An estimated £7 billion would help to ensure that our low pressure gas networks, which deliver gas to homes and businesses, remain safe and reliable. The money would fund the continued maintenance across Britain of the gas distribution network, in particular the gas mains replacement programme. In addition, our proposals would enable the gas distribution companies to connect around 80,000 fuel poor households to the gas network. The proposals will also enable funding for companies to develop carbon monoxide awareness initiatives.

Ofgem Chairman, Lord Mogg stated: "As Ofgem's Project Discovery set out, Britain faces an unprecedented need to invest to replace ageing infrastructure, meet environmental targets and deliver secure supplies. This needs to be carried out at a time of global financial uncertainty, which makes attracting investment difficult but possible.

"In addition, through Ofgem's RIIO price controls we are driving improvements in company performance to ensure costs are kept as low as possible for consumers by incentivising efficient investment and penalising poor performance. Our 'vanilla' weighted average cost of capital of around 4.5% (6.7-7.0% cost of equity) achieves these criteria."

RIIO has ensured that network companies have stepped up stakeholder engagement with consumers and network users so that they only deliver the investment which is needed. They are then incentivised to deliver this investment as cost effectively as possible.

To further safeguard consumers, Ofgem will only approve the further £5 billion where there is a demonstrable need for the infrastructure, therefore protecting consumers from paying for redundant assets. Following close scrutiny of the plans, Ofgem has reduced the companies' requested funding by 20%.

The impact of the total RIIO package announced today is estimated to lead to household bills being around £7 higher in 2013, rising to around a £15 increase in 2021. The average increase on annual household bills across the eight years of the price control is around £11 compared to this year.

Notes to editors

1. In March 2011, Ofgem announced the new RIIO (Revenue= Incentives+Innovation+Outputs) framework, which is designed to incentivise companies to deliver investment needed to meet the unprecedented challenges they will face during the next decade, while providing value for money for consumers.

Today's announcement is in addition to the transmission plans of Scottish Power and SHETL (SSE) which were approved in April this year.

The £22 billion investment takes into account capex and repex costs and is based on 2009-10 prices.

2. Business Plans

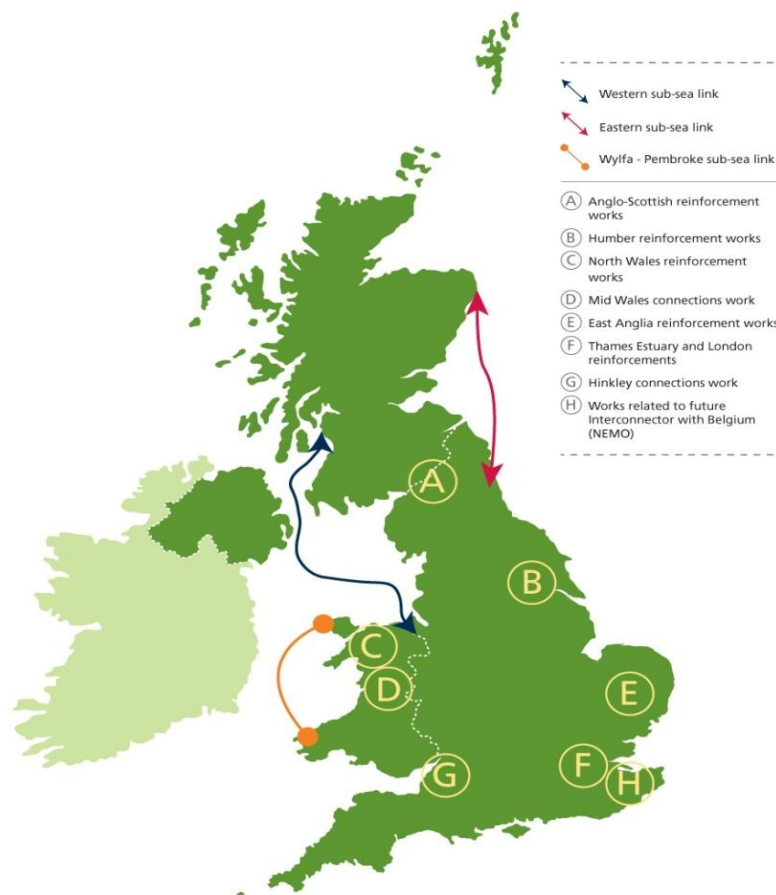
The headlines document for RIIO-T1 Initial Proposals can be found at http://www.ofgem.gov.uk/Networks/Trans/PriceControls/RIIO-T1/ConRes/Documents1/NG_IP_Letter.pdf

The headlines document for RIIO-GD1 Initial Proposals can be found at http://www.ofgem.gov.uk/Networks/GasDistr/RIIO-GD1/ConRes/Documents1/GD1_IP_letter.pdf

3. Next Steps

Initial Proposals for RIIO-T1 & GD1 will be published on 27 July 2012. There will be an eight week consultation period and responses are required by 21 September. We intend to publish the Final Proposals in December 2012 and undertake the statutory consultation on the licence changes implementing those proposals in the new year.

Indicative map of major electricity transmission projects during RIIO-T1



4. Consumer Bill Impact

The £11 average increase to a household bill breaks down into around £4 for National Grid Electricity Transmission (NGET), £2 for National Grid Gas Transmission (NGGT) and £5 for the gas distribution companies. These calculations are based on May 2012 prices.

These do not include the transmission plans of Scottish Power and SHETL (SSE) which were approved in April this year.

6. Visual Amenity

Funding for undergrounding of new infrastructure

Visual amenity was a key focus for Ofgem and through these proposals it is making available around £470 million for the undergrounding of new power lines (with the ability to change this reflecting planning decisions). This will help enable National Grid's plans which double the current assumption for undergrounding from 5 per cent to 10 per cent of the total route length.

The need for undergrounding and the adoption of other mitigation measures on new transmission routes will continue to be a matter that is determined, on a case by case basis, by the relevant planning authorities. This will be heavily informed by the company's processes to obtain development consent, including stakeholder engagement and consultation on its proposals.

Funding for improving visual amenity of existing infrastructure in National Parks and Areas of Natural Beauty (AONB)

Ofgem has introduced through RIIO-T1 a specific funding allowance for companies to mitigate the visual impact that existing infrastructure may have on AONB. Through this up to £100 million is initially available for companies, thereby enabling work to begin on projects.

Ofgem will consider increasing the level of this allowance during the course of the price control and has asked National Grid to do further work in this area.

There is a fact sheet on visual amenity in RIIO here

<http://www.ofgem.gov.uk/Media/FactSheets/Documents1/109%20visual%20amenity%20factsheet.pdf>

7. Table of Key Financial Parameters

	RIIO-T1		RIIO-GD1
	NGET	NGGT	
Cost of debt (real pre-tax)	iBoxx 10-year trailing average index (currently 3.0%)*		
Cost of equity (real post-tax)	7.0%	6.8%	6.7%
notional gearing	60%	62.5%	65%
"Vanilla" weighted average cost of capital	4.6%	4.4%	4.3%

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