



RIIO-3 Investor call – Draft Determinations

1 July 2025

Order of proceedings

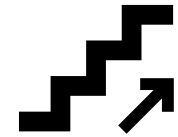
- Introduction - Akshay Kaul, Director General for Infrastructure
- Draft Determination Overview - Steve McMahon, Director for Price Controls
- Finance Overview - Rohan Churm, Director for Financial Resilience and Controls
- Q & A – Akshay Kaul

Introduction



Context

- Today we have published our Draft Determination proposals for the next electricity transmission and gas transmission and distribution price control (known as RIIO-3)
- It covers 5-year spending plans to March 2031
- The RIIO-3 controls are the most consequential price reviews we have undertaken for consumers
- Our objective is to ensure the networks deliver a cleaner, more secure energy system, protecting the interests of current and future consumers while keeping costs as low as possible
- Following consultation, we will confirm our Final Determinations by December 2025



**Clear approach to
achieve Clean Power
2030**



**Risk and reward
balanced across the
RIIO package**



**Ambitious but
achievable targets**

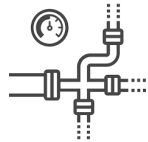
Draft Determination Overview



RIIO-3 Draft Determinations at a glance



Expanding the electricity transmission grid at an unprecedented scale and pace to ease constraints, get new generation connected and insure against future gas price shocks



Strong **asset stewardship of gas networks** recognising their enduring importance



Rigorously **testing company plans for efficiency** but ensuring funding is available to deliver essential investment

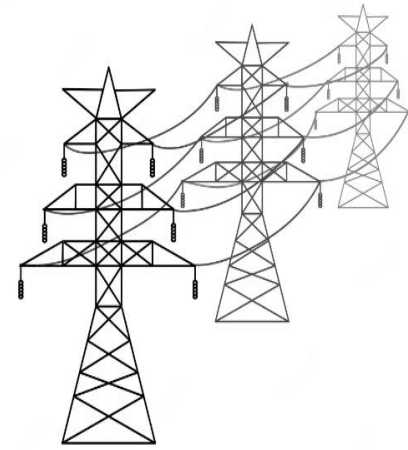


Higher returns for on-time delivery of infrastructure and improving customer outcomes



A competitive, **financeable and investable** package

Electricity Transmission

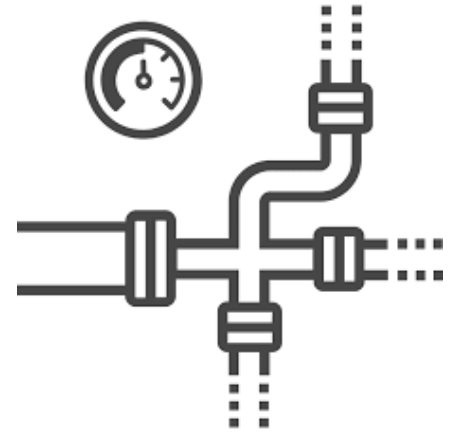


We want Transmission Owners to build resilient networks that support net zero and reduce reliance on gas

- **Largest increase in capital spending** in the history of the sector follows the government's Industrial Strategy and will enable 80 major infrastructure projects to be completed by 2030 - expanding Britain's grid at the fastest pace and scale since the 1960s
- Upgrading 4,400km of overhead lines and delivering 3,500km of new circuits, so that **126 GW of clean power generation** can connect to the grid by 2030
- Investment in new capacity alongside essential replacement of aging assets to ensure world-class levels of reliability are maintained
- Allowances of **£8.9bn now potentially reaching £80bn** over the period
- A suite of load-related baseline funding and in-period mechanisms working alongside **strong new incentives** so that TOs are fully focussed and have the funding required to deliver a transformative investment programme
- Rolling over new **~£4bn Advanced Procurement Mechanism**

Gas Distribution

While there is uncertainty at the transition away from natural gas it continues to play a major role in the energy system

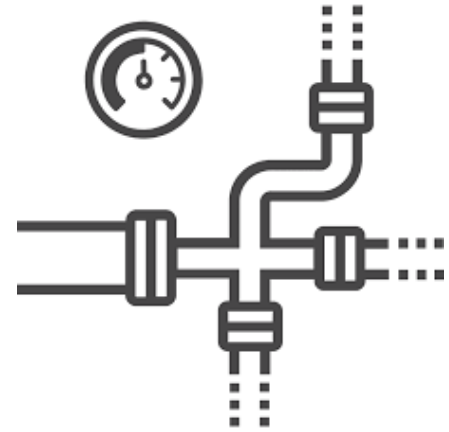


- **The safety, security and resilience** of gas infrastructure remain a key priority
- **£5.9bn** of allowances for the repex programme within an overall totex allowance of £12.8bn
- Only approved spending justified by a **clear needs case and consumer benefit.**
- We will **collaborate closely with government** on its work to consider the future of the gas system, including how best to pay for gas infrastructure
- Mitigating risk to future consumers by proposing that **all new gas distribution network investment is paid back by 2050**

Gas Transmission

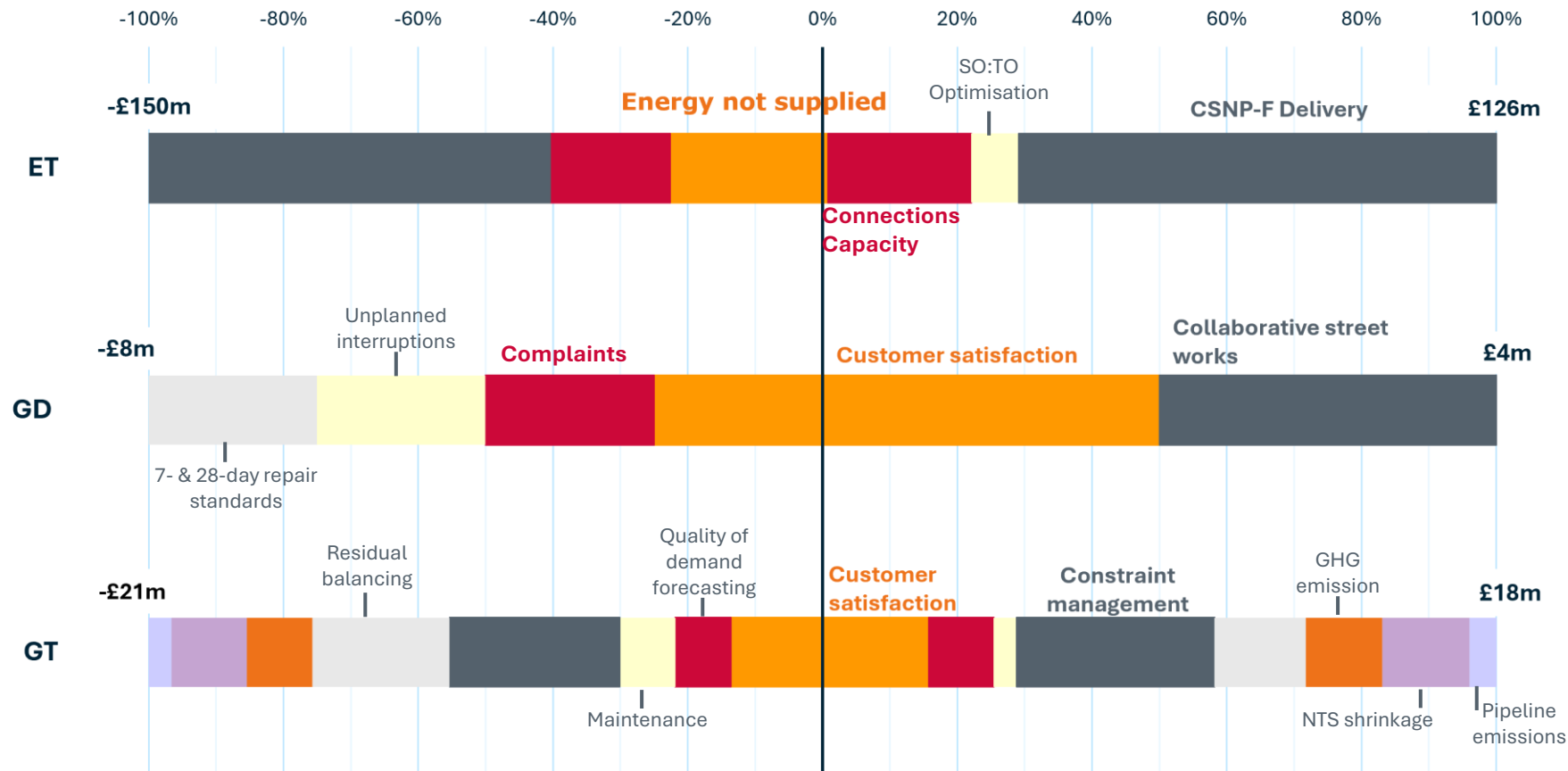
£2.5bn to maintain a safe, secure and resilient gas transmission network

- Deliver investment needed to meet **legislative, environmental and safety** requirements
- Replace **aging assets** and maintain resilient supplies of gas
- Build capacity to **enable west-to-east gas flows** driven by LNG
- Mechanisms for **in-period funding** for new investment when there is more certainty



Proposed incentive package

Average annual licensee's ODI-F caps and collars (£m 23/24 prices)



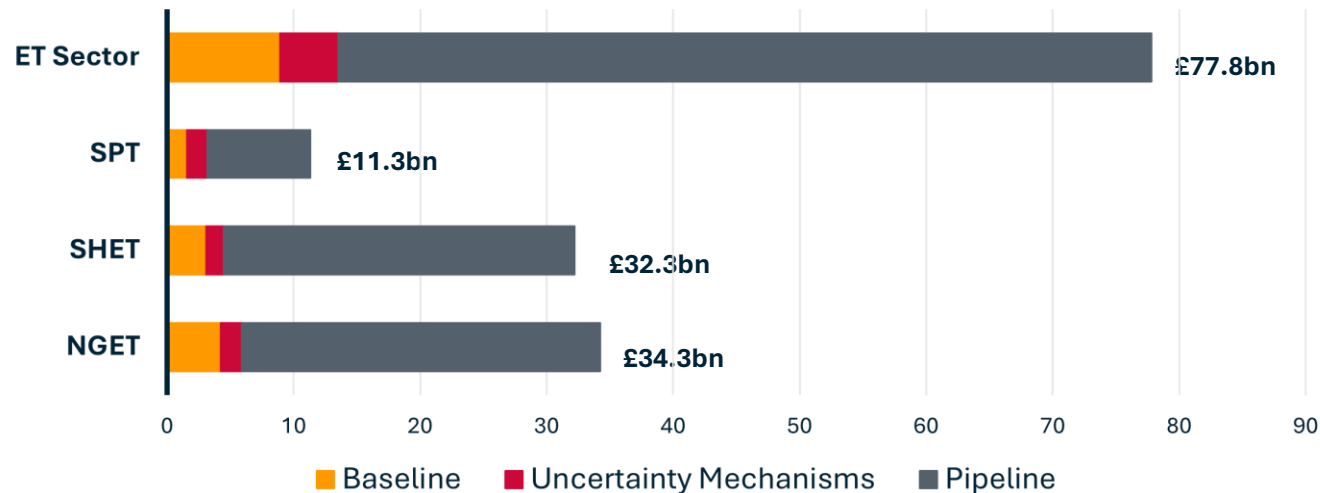
- Electricity Transmission includes a new, powerful **delivery incentive** for CP30 projects
- This will penalise very late delivery up to 5% of totex, but offer up to 10% totex as a reward for on-time or early delivery
- Also seeking views on a new Innovative Delivery Incentive for ET to drive early-stage innovation in project design and delivery. Could be worth up to 100bps (reward only)

Proposed totex allowances

	Baseline totex £bn	Diff to bus plan £bn
Electricity Transmission	8.9	-3.1
Gas Distribution	12.8	-3.8
Gas Transmission	2.5	-1.6
Total	24.2	-8.5

Differences are due to:

- I. Our assessment of efficiency and need
- II. Where we understand the need for investment but want more information and clarity ahead of Final Determinations
- III. Where a decision on funding is best made later, during the price control period, when there is more certainty



- ET baseline totex **does not include c£70bn** to deliver investment to support net zero and CP30 projects outcome of connections reform
- ET baseline totex also does not include funding that will be made available from the outset through **Use It Or Lose It allowances and other mechanisms**

Finance Overview



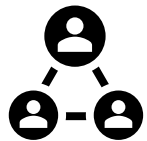
Key headlines



Predictable and stable financial framework – our Draft Determinations build on our positions set out in our SSMC (December 2023) and SSMD (June 2024)



Attractive investment proposition - competitive cost of capital allowances, inflation-protected returns and further performance-based incentives on offer



Fair for consumers - modifications to cost of debt allowances and financial resilience measures as set out in our SSMD last year

Cost of equity

In line with SSMD, UKRN and Investability

- **Baseline CoE – 6.04% / 5.64%** based on notional gearing levels
- **Investors compensated for inflation** in addition to real CoE ~2%
- **Increase on RIIO-2** CoE - 4.55%, RIIO-3 SSMD – 5.46% midpoint (60% gearing, real)

RIIO-3 DD proposal	60% gearing (GD&T)	55% gearing (ET)
Risk-free rate	2.01%	2.01%
Total Market Return	6.90%	6.90%
Debt beta	0.075	0.075
Asset beta	0.375	0.375
Equity beta	0.83	0.74
Cost of equity (real)	6.04%	5.64%

CoE methodology

Step 1 – CAPM approach

- 20-year index-linked gilt yields
- TMR based on ex ante and ex post estimates in line with UKRN guidance
- Included European comparators in our beta assessment as signalled in our SSMD

Step 2 – Investability and cross-checks

- Assessed whether companies are investable through use of market cross-checks
- Considered our allowances from step 1 sufficient, no further adjustments made

Step 3 – Expected vs Allowed return

- no further evidence to warrant further adjustments

Cost of debt

- **Proposing semi-nominal debt allowances** as set out in our SSMD
- **ET trailing averages will be RAV weighted** to reflect the scale of new issuance in RIIO-3
- We have assumed **GD> new debt is issued at 25bps above** the benchmark

Item	RIIO-3 DD proposal
CoD allowance (semi-nominal)	<ul style="list-style-type: none">• GD&GT: 4.45% (sector average)• ET: 5.57% (sector average)
Notional ILD assumption	<ul style="list-style-type: none">• GD&GT: 30%• ET: 10%
Benchmark selection	<ul style="list-style-type: none">• 14-year trailing average of iBoxx GBP non-financials 10+ A and BBB• Calibration adjustment - GT&GD: +60bps; ET: +45bps
Additional cost of borrowing allowance	<ul style="list-style-type: none">• GD&GT: 25bps• ET: 19bps

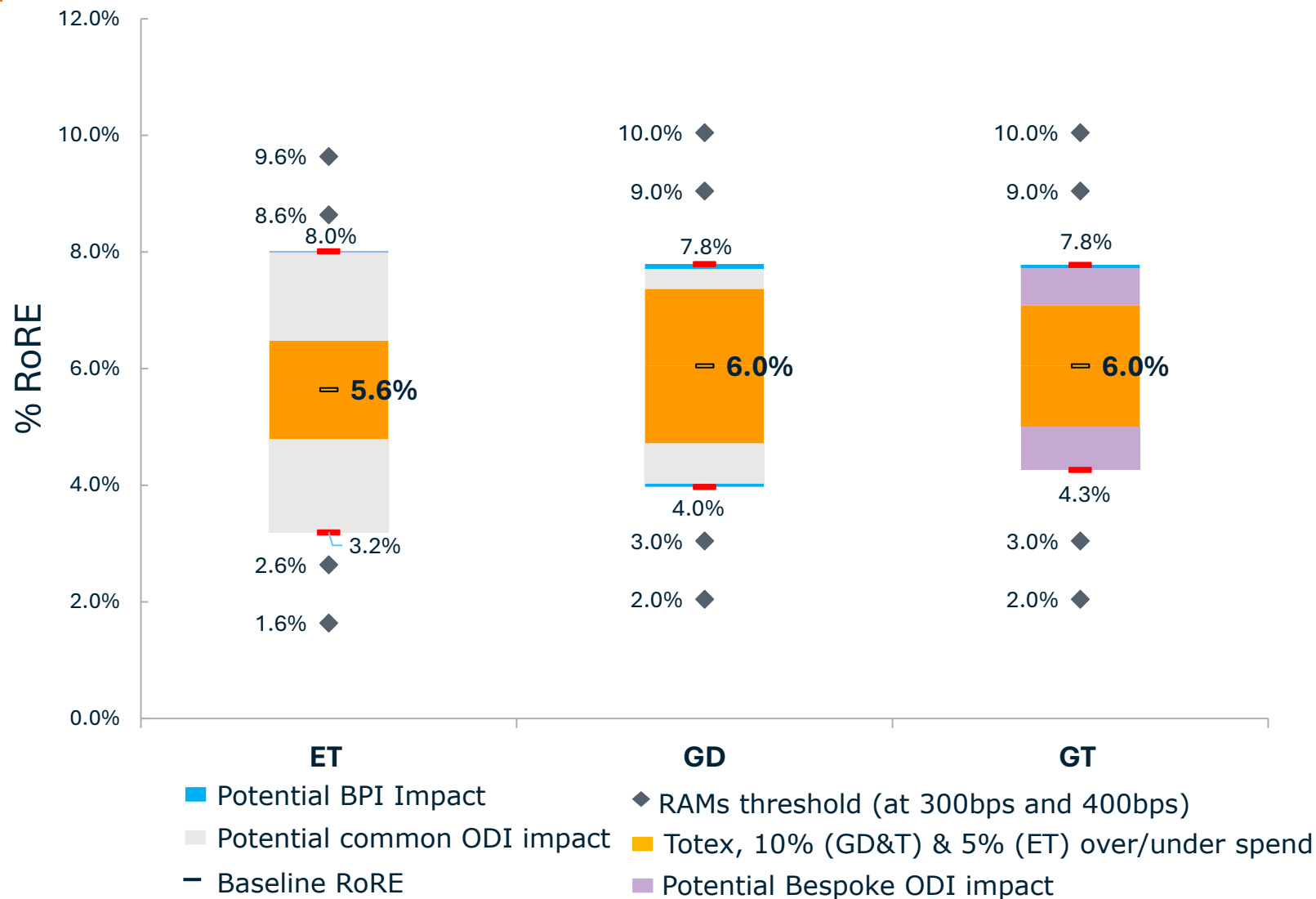
WACC

- **Notional gearing levels** unchanged from RIIO-2
- Cost of debt allowances reflect **sector-specific allowances** and **ET RAV weighting** of trailing averages
- Proposing to **discontinue use of a flat WACC** in this situation

WACC Allowance	GD&T	NGET (ET)	SPT (ET)	SHET (ET)
Notional Gearing	60%	55%	55%	55%
Cost of equity allowance (real)	6.04%	5.64%	5.64%	5.64%
Cost of debt allowance (semi-nominal)	4.45%	5.43%	5.65%	5.81%
WACC allowance (real)	4.22%	4.49%	4.61%	4.70%

WACC Allowance	GD&T	NGET (ET)	SPT (ET)	SHET (ET)
WACC allowance (semi-nominal)	5.09%	5.52%	5.64%	5.73%
WACC allowance (nominal)	6.32%	6.60%	6.71%	6.82%

RoRE and RAMs



RoRE:

- A baseline cost of equity allowance (5.64% / 6.04%)
- Further returns on totex and ODIs based on company performance

RAMs:

- **Protection for investors and consumers** from excessive gains and losses
- Methodology unchanged from RIIO-2

Debt Financeability

- 'In the round' consideration of debt financeability
- We have chosen to target credit quality, on a notional efficient basis, **consistent with at least a Baa1/BBB+rating**
- **GD&T networks** considered financeable on a notional efficient basis at **60% gearing**
- For ET we propose to adjust bucket two capitalisation rates to 85%
- We consider the **electricity transmission networks** are financeable on a notional efficient basis at **55% gearing**
- We have also assessed financeability against:
 - higher totex scenarios
 - a range of downside cases
 - future changes in macroeconomic environment

Licensee	AICR	FFO/ Net Debt (Moody's)	Scorecard Rating	Nominal PMICR	FFO/ Net Debt (S&P)
Cadent	1.92	15%	A2	2.09	14%
NGN	1.98	15%	A2	2.14	14%
SGN Scot	1.92	15%	A2	2.08	14%
SGN South	1.91	15%	A2	2.07	14%
WWU	1.91	15%	A2	2.09	14%
NGT	1.92	15%	A2	2.10	13%
NGET	1.81	15%	Baa1	2.96	17%
SHET	1.75	16%	Baa1	3.52	20%
SPTL	1.77	16%	Baa1	3.21	19%

Other financial parameters

Financial resilience measures:

- Proposals to require **networks to maintain more than one investment grade credit rating**
- Lock-up on distributions at **75% gearing or above**
- require **an additional and extended version of the existing certificate of resources** along with a statement of factors

Capitalisation rates:

- Natural capitalisation rates for GD&T
- Natural capitalisation rates for ET bucket one

Asset lives:

- Maintain asset life assumptions for GT & ET and repay all new GD investment by 2050

Q&A



Thank you

