

# NGET price control extension – 2006/07 Final Proposals

## Analyst presentation – 28 November 2005

**The conference call, which this presentation accompanies, will be recorded.  
To access this recording after the call dial +44 (0)20 8515 2499 and enter the  
pin 690824#  
The recording will be available until Thursday 1 December 2005.**

**Disclaimer:** The information contained in these slides is a summary of the final proposals for the extension of NGET's price control extension to 2006/07. Full details of GEMA's final proposals (the "final proposals") for the price control extension are set out in Extending National Grid Electricity Transmission plc's Transmission Owner Price Control for 2006/07. The information contained in these slides is intended to summarise some aspects of the key features of the final proposals but neither GEMA nor Ofgem represent or warrant that the information contained in these slides constitutes an accurate or complete summary of the final proposals.

# Initial Proposals

- Opex allowance of £276m (continuing assumption of 2.5% improvements)
- Proposed capex allowance of £470 million
  - £144m below NGET's proposal
  - £220m (90%) over 2005/06 allowance.
- Interim RAV of £5104 million
  - excluding £146m of capex;
- Real post-tax allowed return of 4.4% (equivalent to 6.25% pre-tax)
- Tax allowance of £68m
- Pensions to be considered in TPCR
- Proposed revenue allowance of £910m

**Note:** All figures throughout the presentation are in 04/05 prices

## Final proposals

- Opex proposals unchanged;
  - Pensions costs to be considered in TPCR
- Capex allowance increased by £10m
- £55m increase in opening RAV
- 4.4% real post-tax allowed rate of return
  - Equivalent to 7% real pre-tax return
- Tax allowance increased by £36m to £104m
- Revenue allowance increased to £943m

# Capex allowance

- NGET initial submission included £14m of SO costs – proposed allowance should have been £456m instead of £470m
- Allowance increased by £10m in response to further NGET submission
- Capex allowance for 2006/07 is £467m
- Ofgem intends to review NGET's expenditure for 2006/07 in TPCR.

# RAV

- Asset disposals had been incorrectly split in initial proposals between pre- and post-Vesting assets.
- Adopting the correct split increases the RAV but reduces depreciation.
- Final proposals:
  - Opening RAV: £5159 million (from £5104m)
  - Depreciation: £366m (from £371m)
- Adjustments may be made following more detailed analysis during TPCR.

# Cost of Capital

- No change to initial proposals
- 4.4% real post-tax WACC
- Main components:
  - Pre-tax cost of debt - 3.75%
  - Post-tax cost of equity – 7.0%
  - Gearing – 60%
- Proposal for the extension review should not be considered to set a precedent for the TPCR.
- Detailed cost of capital study planned for 2006

# Tax

- Initial proposals incorporated an implied allowance of £68m
- Further information from NGET suggests a substantially higher figure
- Final proposal: £104m
- 2006/07 will be adjusted in the light of the full review of tax planned for TPCR
- Proposed post-tax WACC and tax allowance are equivalent to about 7% real pre-tax return

# Summary of Final Proposals

- Opex allowance of £276 million
- Capex allowance of £467 million
- Opening RAV of £5159 million
- Tax allowance of £104 million
- Post-tax real rate of return of 4.4%
- Price control revenue allowance of £943m for 2006/07
- Further review in TPCR of pensions, capex, RAV, Tax
  - Ex-post adjustments may result



A large version of the ofgem logo, featuring the word "ofgem" in white lowercase letters on an orange rounded rectangular background. The background of the slide is a faded image of electrical outlets and a person sitting at a desk.

Promoting choice and value for all  
gas and electricity customers