

# **Transmission Price Control 4 Adapted Roll-over**

## **SP Transmission Presentation to Stakeholder Workshop**

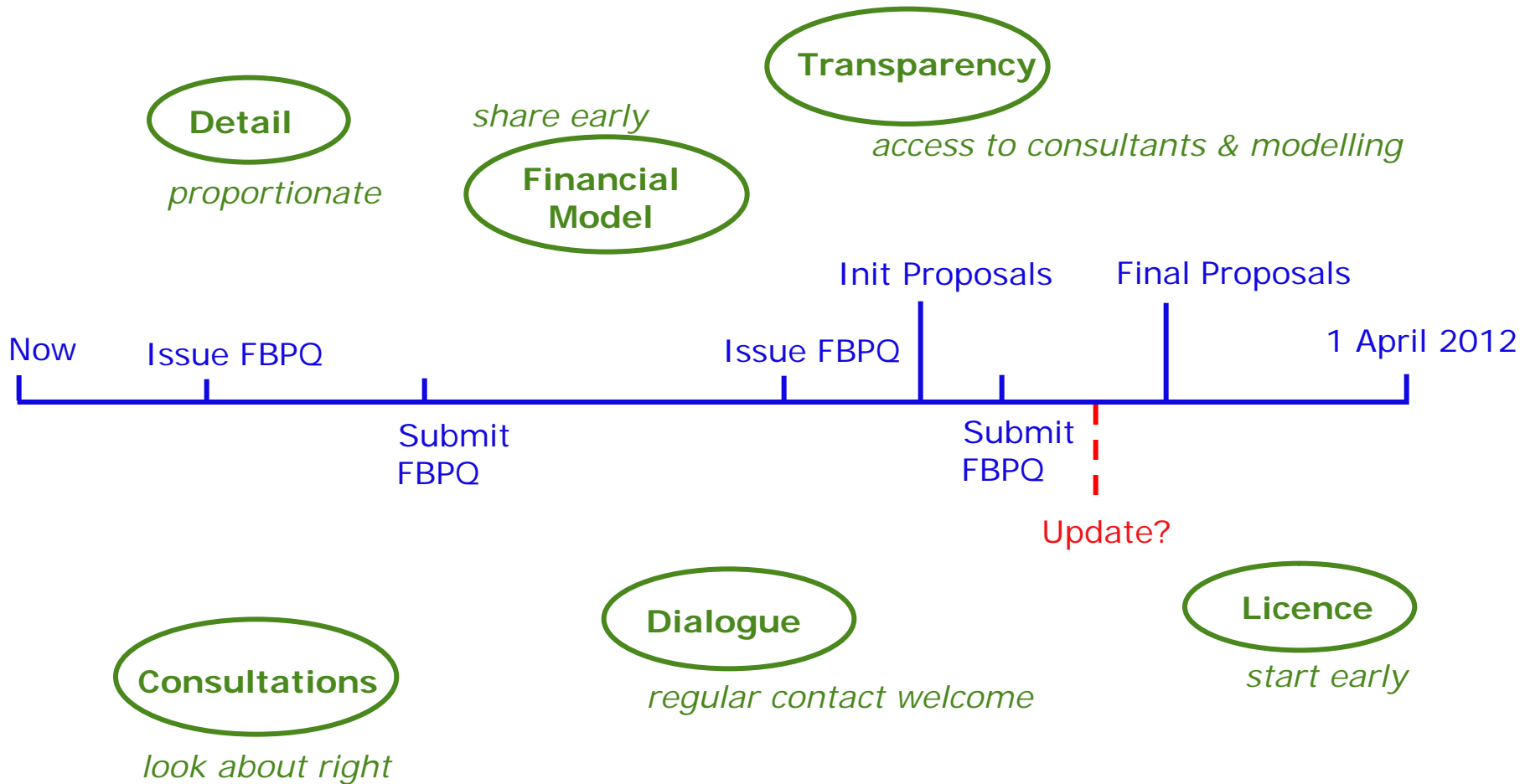
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**13 April 2010**

# Summary

- The “Adapted Roll-over Review” should be proportionate
- We require stability in funding
- Good progress on delivery should not be compromised
- It should not preempt RPI-X@20
- Our preference is for a “roll over” of current return

# Process & Timetable

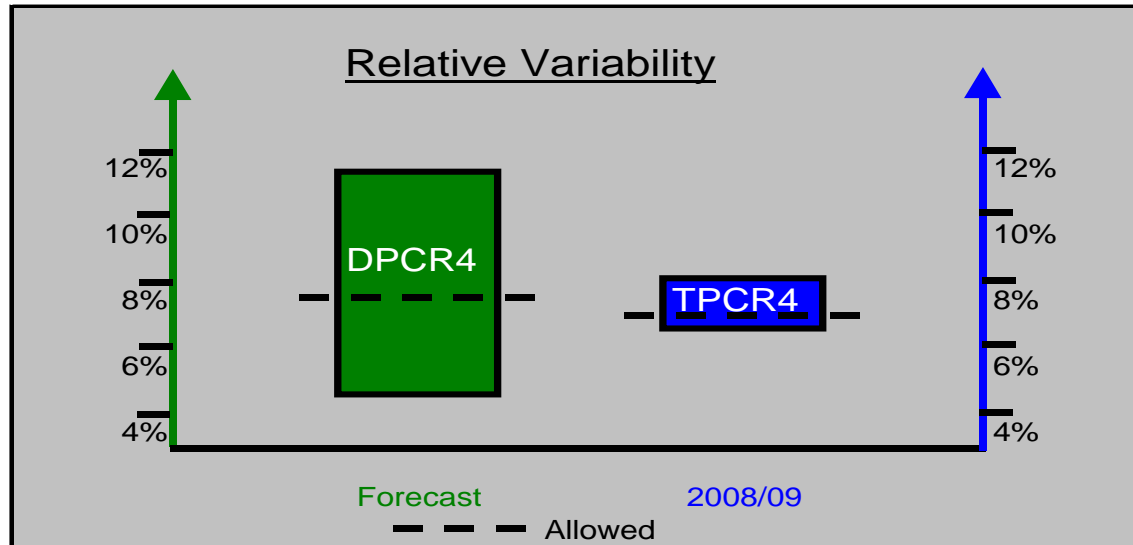


# Financial Issues

## Cost of Capital

- Preference is for a roll over of current return
- A partial, purely 'econometric' refresh is not appropriate
- Factoring in RORE as part of a partial refresh would be unwieldy and unnecessary
- At full review – early transparency

## Return on Regulatory Equity



- A useful reporting tool?



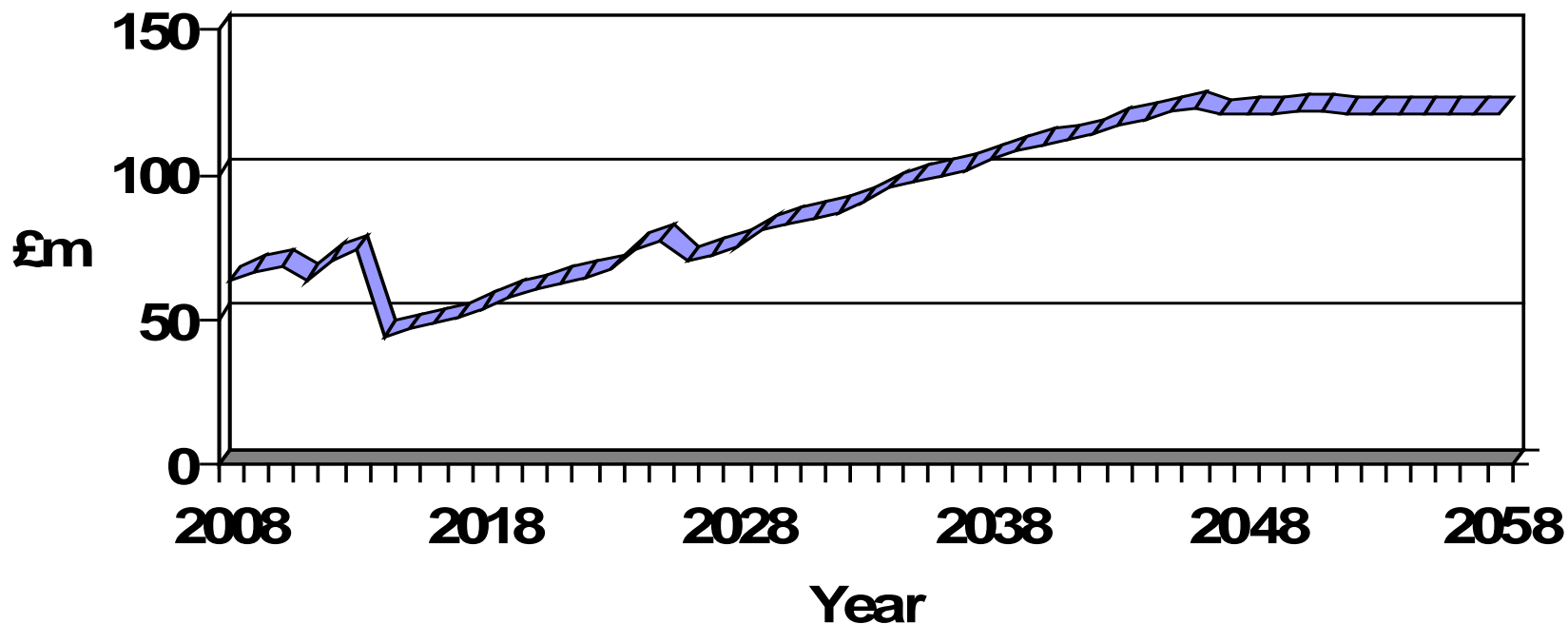
- A method to assess a Transmission roll-over cost of capital?



# Financial Issues

## Financeability & the 'Cliff-Edge'

### Revenue Impact of a 40-years Asset Life for SPTL

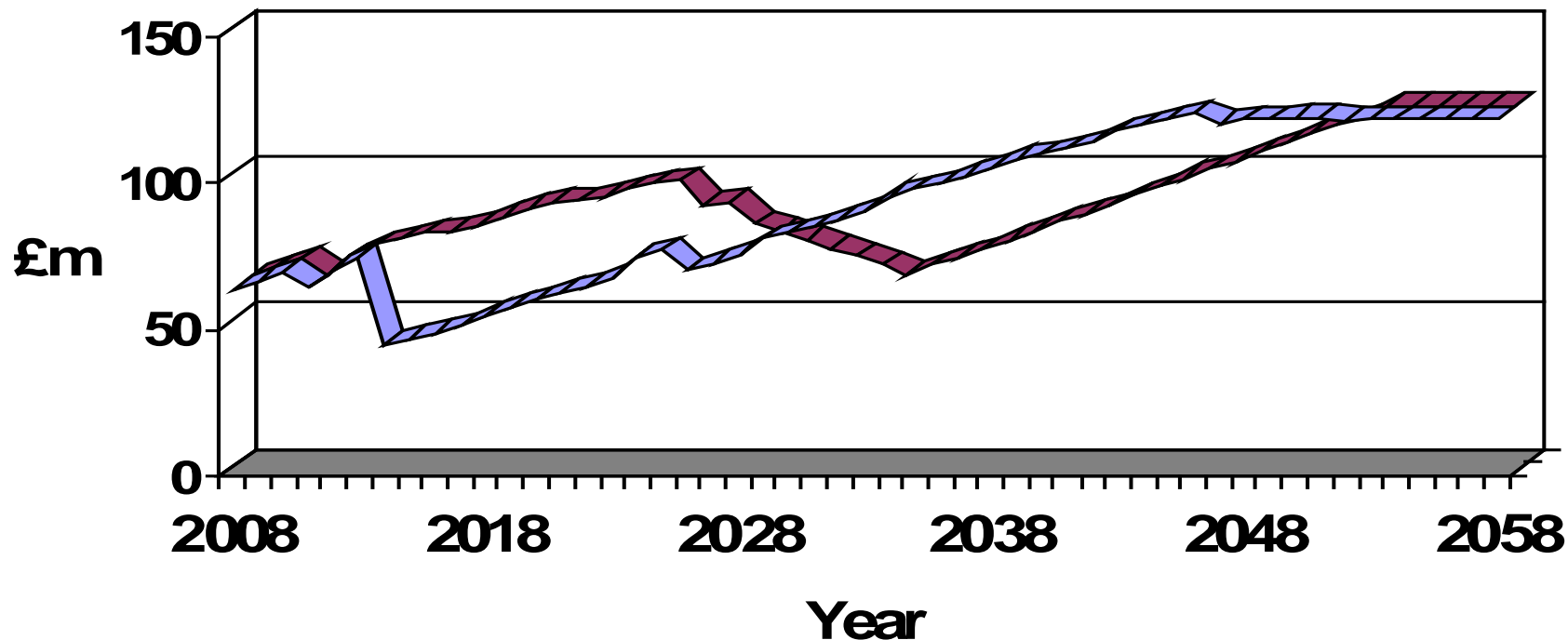


- Investment grade rating is critical
- Can't sideline financeability ratios

# Financial Issues

## Financeability & the 'Cliff-Edge'

### Revenue Impact of a 40-years Asset Life for New Assets Only



- Investment grade rating is critical
- Can't sideline financeability ratios

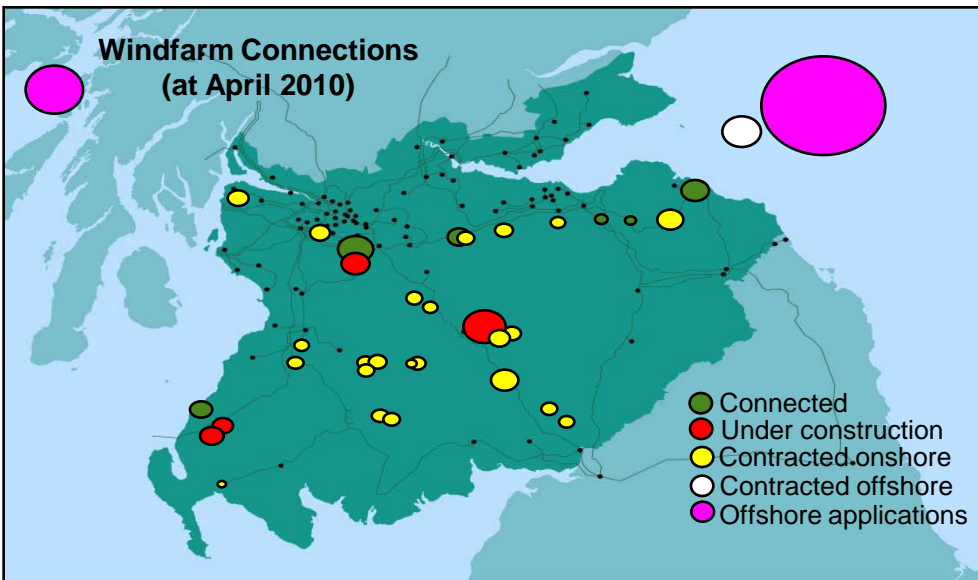
# Financial Issues

## Other Issues

- Tax – Adoption of DPCR5 trigger could be straightforward
- Pensions – Could consider regulatory fractions for deficits
- General – Lets bag as many generic policy issues prior to the main review if we can

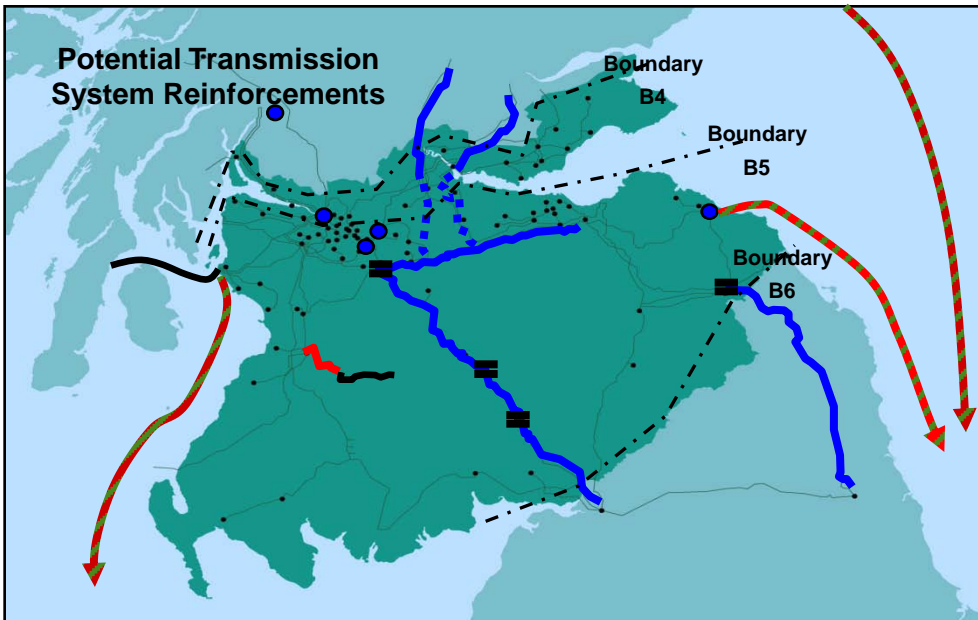


# Load Related Investment



<u>Connection Capacities</u>	October 2006 MW	April 2010 MW
<b>Onshore Wind</b>		
Connected	264	822
Under Construction	322	987
Contracted	3359	1814
<b>Offshore Wind</b>		
Contracted	0	450
<b>TOTAL</b>	<b>3945</b>	<b>4073</b>
Offshore Applications		5140

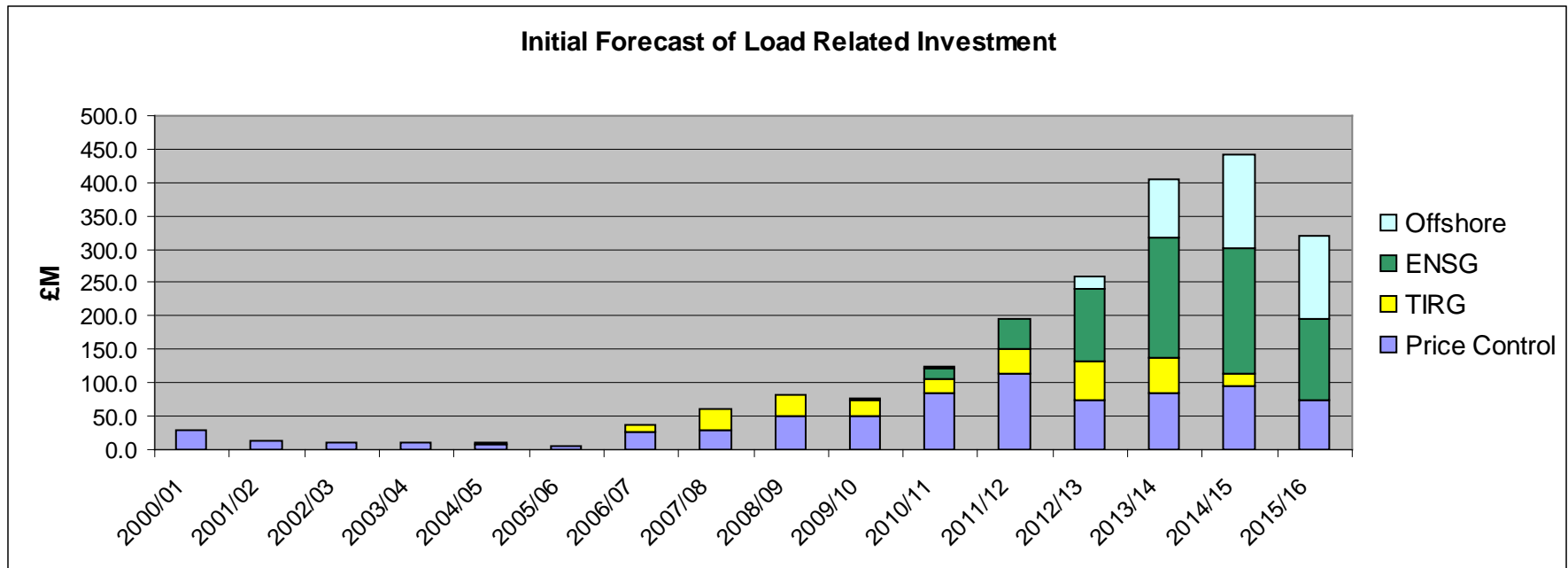
- Changes to our connections portfolio have given us the opportunity to optimise our designs leading to a change in the profile of “sole-use” assets and “shared use” assets
- Key factors impacting on timescales and costs are planning progress, changes to customer requirements and supplier prices.



<u>Boundary Capacities</u>	2006 MW	2010 MW	2015 MW	2020 MW
<b>B4 - SHE to SPT</b>	1500	1800	3750	5300
<b>B5 - Central Scotland</b>	2650	3320	4150	5700
<b>B6 - Scotland- England</b>	2200	2800	6000	7500

- Some reinforcements are already partially or fully funded as part of TIRG and TPCR4.
- We will work with Ofgem to ensure that funding is in place to progress essential reinforcements

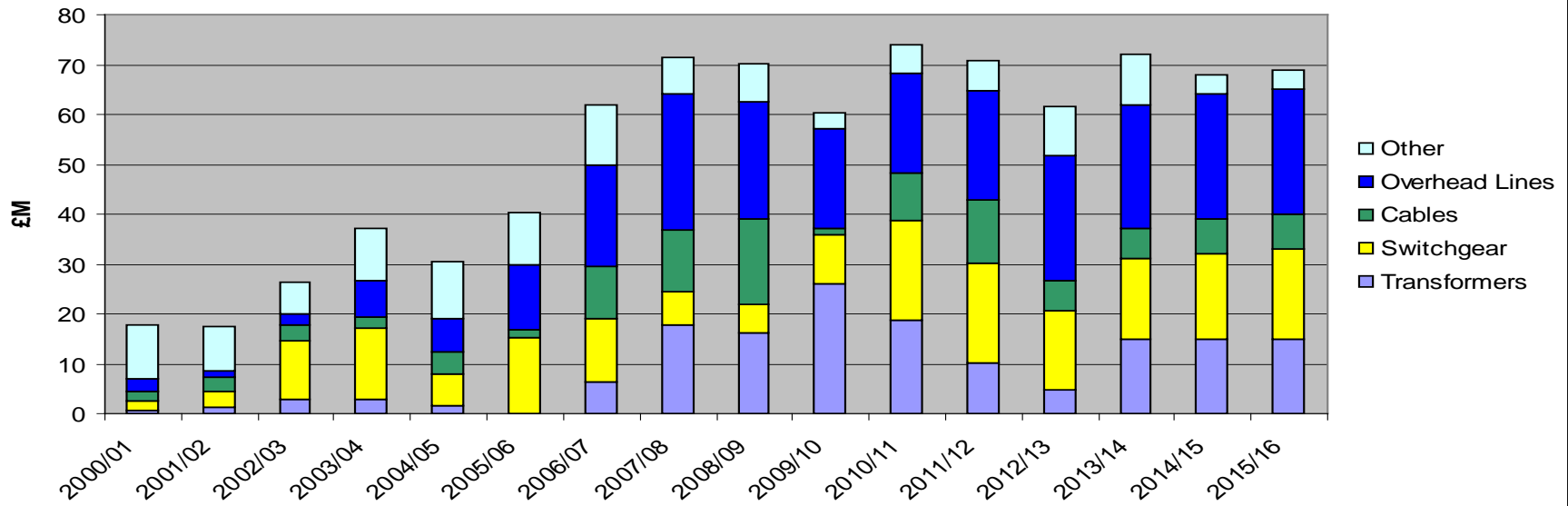
# Load Related Investment



- This capital expenditure load forecast is based on our contract portfolio, offers in preparation and 2009 ENSG assumptions.
- There will be a significant increase in load investment
- Price control funding is required in 2012/13 to continue progress on connecting onshore wind farms and address any gaps in shared use asset investment

# Asset Replacement Investment

Initial Forecast of Asset Replacement / Refurbishment Investment



- Asset health continues to drive high investment requirements
  - Overhead Lines - conductors at or near end of life, weather deteriorated fittings, tower & foundation refurbishment
  - Substations – oil & air-blast circuit breakers at end of life, weather deteriorated civil works, poor condition transformers
- Network Output Measures will provide Ofgem with more information on asset health and network risk
- There is a continued upwards pressure on supplier input costs
- Operating Costs – base on average costs

# Stakeholder Engagement

- Stakeholder engagement should be proportionate
- We already undertake considerable stakeholder engagement. We see this as a continuous, ongoing process.
  - Industry bodies – ENSG, RAB, ENA, SRF, UKBCSE
  - Scottish Government, British and Irish Council
  - Grid Code Review Panel
  - Europe – ENTSO-E, Eurelectric
  - Meetings with customers (supporting National Grid)

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