

The background of the slide features a close-up, artistic photograph of interlocking mechanical gears. One gear in the foreground is blue, while the others are a light tan or cream color. The lighting creates a soft, hazy effect, with some areas appearing overexposed. A large, semi-transparent white 'X' is overlaid on the left side of the image.

Price Control Review Forum (PCRf) 4TH Meeting

Friday 2 December 2011

Session 1: Introduction and purpose of meeting

**Hannah Nixon,
Acting Senior Partner,
Smarter Grids & Governance: Transmission**

Agenda

- **Welcome & Purpose of Meeting (10:30–10.40)**
(Hannah Nixon)
- **Overview of Business Plan Assessment (10:40-10:55)**
(Grant McEachran)
- **Discussion of Business Plans (10:55–12:45):**
 - NGET presentation and Q&A – **(10:55-11:20)**
(Paul Whittaker)
 - NGG presentation and Q&A – **(11:20-11:45)**
(Paul Whittaker)
 - SPTL presentation and Q&A – **(11:45-12:15)**
(Alan Michie)
 - SHETL presentation and Q&A - **(12:15-12:45)**
(Aileen McLeod)
- **Lunch (12:45-13:15)**
- **Next Steps (13:15-13:25)** *(Grant McEachran)*
- **AoB (13:25 -13:30)**

RIIO-T1: Purpose of meeting

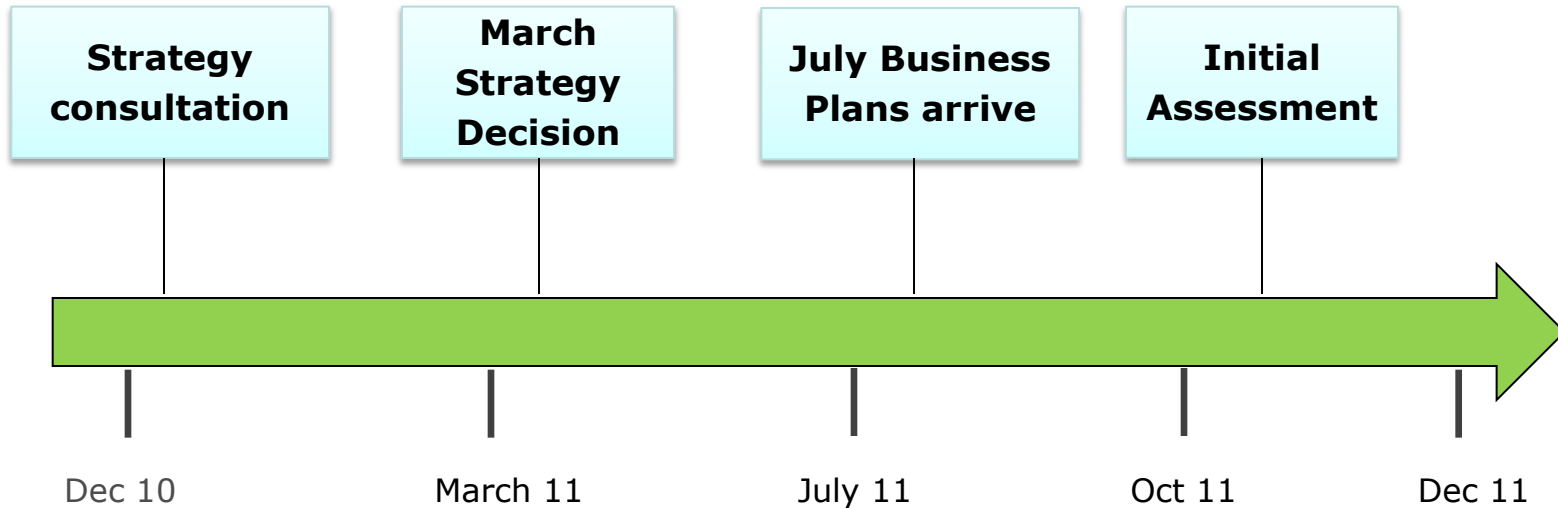
- Overview of our initial assessment of business plans
- Hear from the transmission owners on their business plans and subsequent work
- Highlight any issues that could help make engagement with particular stakeholders more effective at this important stage in the process
- Understand the RIIO-T1 next steps

Your contribution is vital highlighting both problems but also positives that can be built on!

Session 2: Overview of RIIO-T1 business plan assessment

Grant McEachran
Head of RIIO-T1
Smarter Grids & Governance:
Transmission

RIIO-T1: THE STORY SO FAR... (1)



RIIO-T1: THE STORY SO FAR... (2)

Positives:

- All TOs have sought to **engage actively** with their stakeholders in developing their plans.
- All have also made strides towards developing plans that are **outputs-led and reflect the consideration of stakeholders' views**.
- They also demonstrate how they have taken **account of a wider range of issues**, including their role in contributing to delivering a sustainable energy sector and the risk and uncertainties associated with delivering their plans.
- They have all **published significantly more information** than they have in any previous price control process.

Areas of development:

- There are a number of areas requiring further work in all of the plans which include, but are not limited to, the need to **provide greater evidence** of an overarching strategy to deliver environmental responsibilities.
- The need for **more detailed innovation strategies** and the requirement to provide further information and review and revise elements of their financial proposals and more justification why this is in the consumers' interest.

Initial assessment (1)

- **National Grid Electricity Transmission**

- Some significant positives (stakeholder engagement process, approach to risk assessment , coverage of safety, treatment of asset lives)
- Proportionate treatment can be applied, as appropriate, in these areas
- Inconsistencies in data templates, work to do on asset replacement volumes, justification of financial proposals
- While some issues can be addressed, data inconsistencies too significant to resolve in time for fast tracking

- **National Grid Gas Transmission**

- Generally clear and detailed plan (positives included stakeholder engagement process, approach to risk assessment, coverage of safety and treatment of asset lives)
- Proportionate treatment can be applied, as appropriate, in these areas
- Further work needed in some areas including addressing data inconsistencies, provision of more information to support the proposals on treatment of network flexibility, justification of financial proposals, compressor programme justification

Initial assessment (2)

- **Scottish Power Transmission**

- Recognise developments in stakeholder engagement but some aspects of the plan could have been more outwards facing
- Positives include safety coverage, quality of data templates, and technical financial proposals e.g. tax coverage and treatment of asset lives
- Could resolve areas needing work in time for fast-tracking
- Onus on company to work on areas to be resolved including evidence of cost efficiency, more detailed innovation strategy, reliability outputs

- **Scottish Hydro Electric Transmission**

- Generally well written plan demonstrating engagement with stakeholders
- Positives include coverage of safety, customer satisfaction and its approach to delivering timely connections
- Could resolve areas needing work in time for fast tracking
- Onus on company with much work needed in a number of areas including cost efficiency, financial proposals, reliability, environmental and wider works outputs

Initial Assessment (3)

| CATEGORY | NGET | SPTL | SHETL | NGG |
|---------------------------------------|------|------|-------|-----|
| Process | | | | |
| Outputs | | | | |
| Resources – efficient expenditure | | | | |
| Resources – efficient financial costs | | | | |
| Uncertainty/Risk | | | | |

Session 3: Discussion of Business Plans

Paul Whittaker, National Grid (electricity/gas transmission)
Alan Michie, Scottish Power Transmission
Aileen McLeod, Scottish Hydro Electric Transmission

Price Control Review Forum

nationalgrid
THE POWER OF ACTION

December 2011

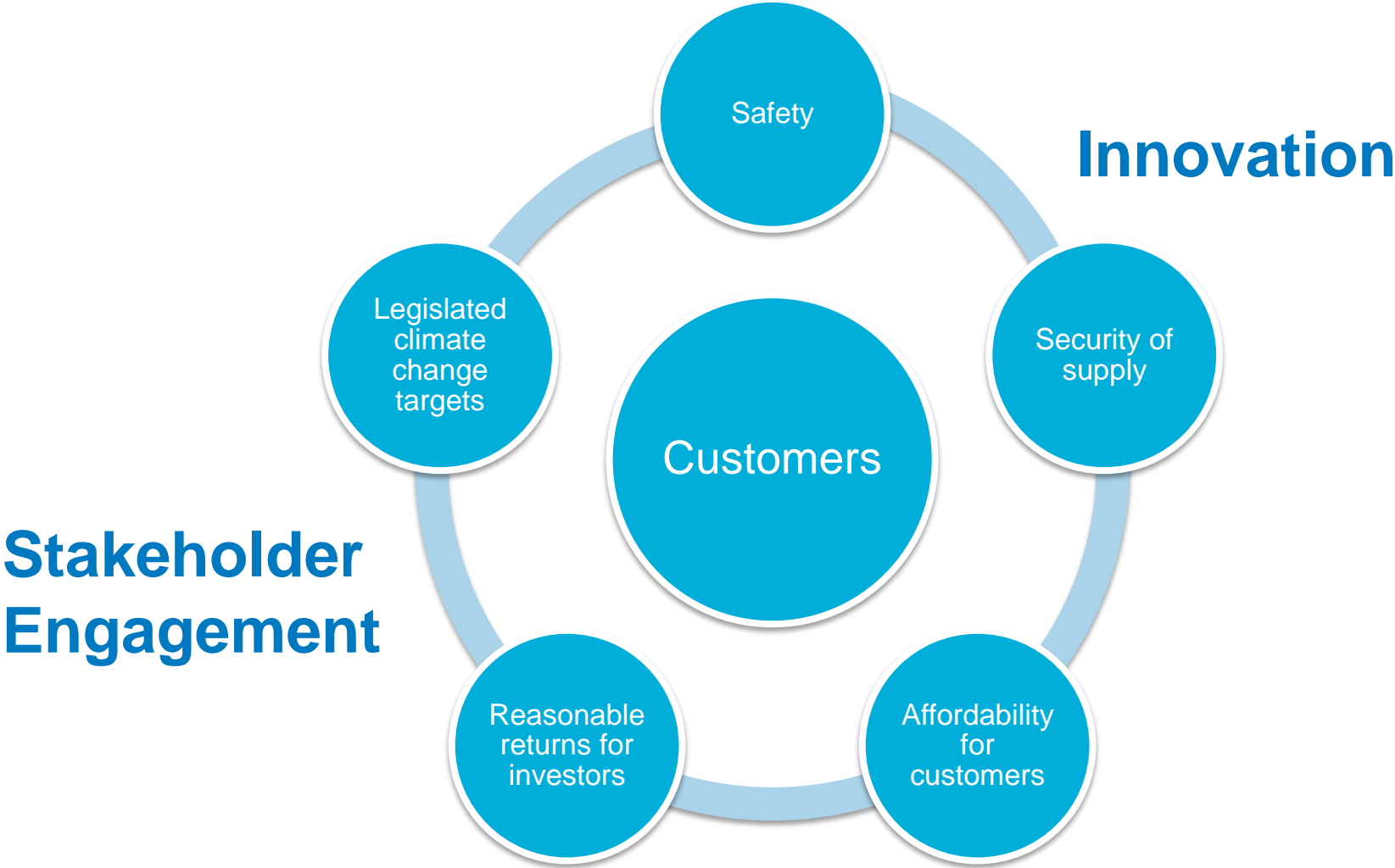


Agenda

- Overview of the July 2011 business plans
- Progress since July 2011
- Next steps

July 2011 business plan overview

The business plans



What stakeholders told us

We developed our plans in conjunction with stakeholders' views

Safety

Environment

Reliability

Customer Satisfaction

Customer Connections

Innovation

"Safety is non negotiable"

"Facilitate low carbon energy"

"Reliability must be maintained"

"Improve customer service"

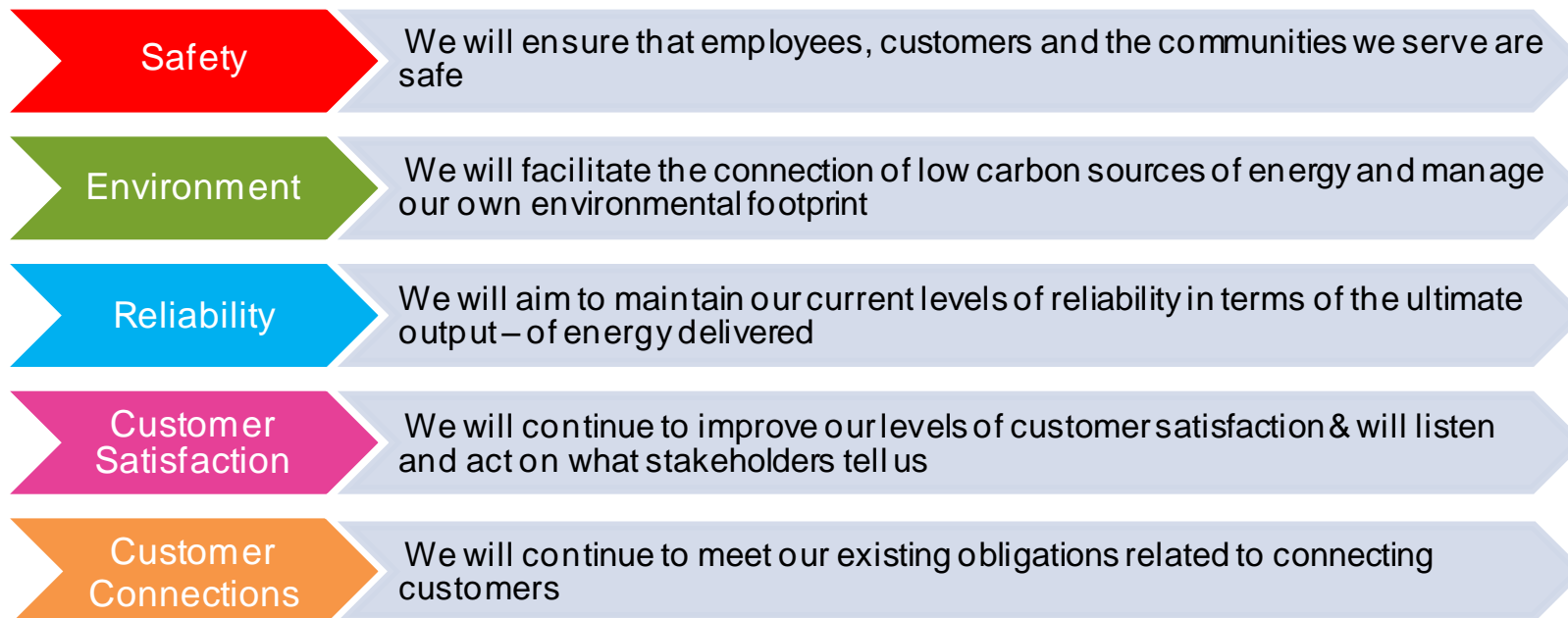
"Process must be improved"

"Innovation is crucial"

NGET

Our plan delivers...

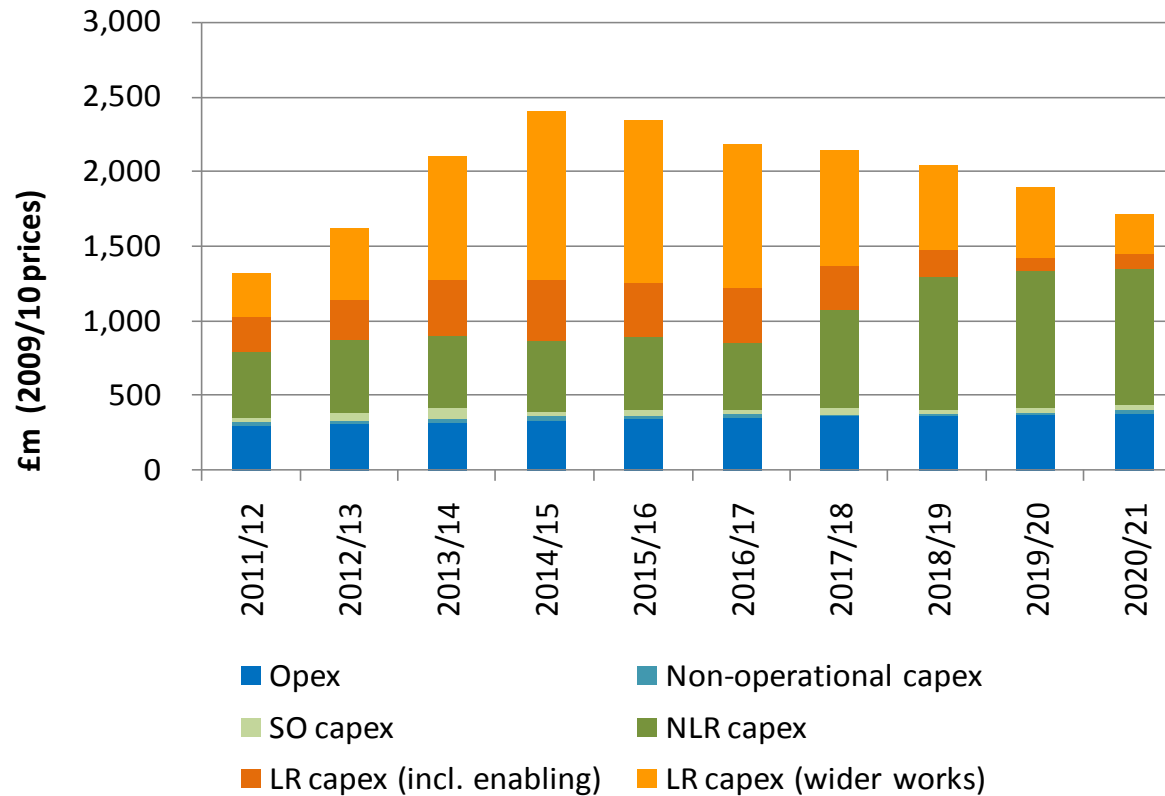
■ Outputs:



■ Assets:

- 345 route km of new OHL
- 1,488 route km replaced
- 264km of underground cables
- 48 new substations
- 2 new HVDC interconnectors to Scotland

Electricity baseline plan expenditure



Capex

£14bn

+

Opex

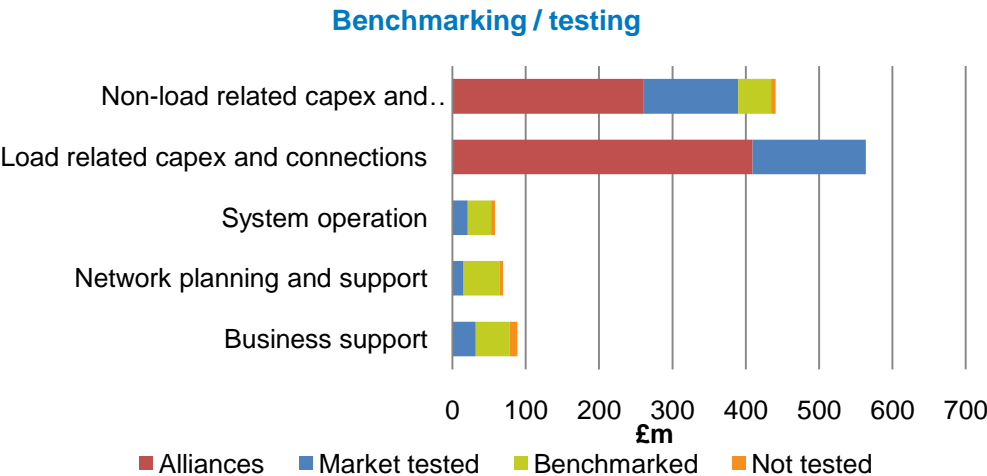
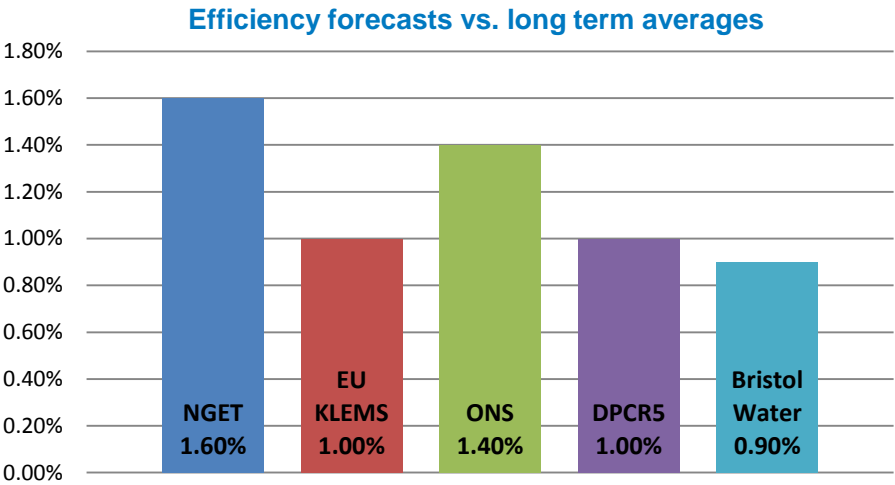
£2.8 bn

=

**'Totex' over
RIIO-T1 period**

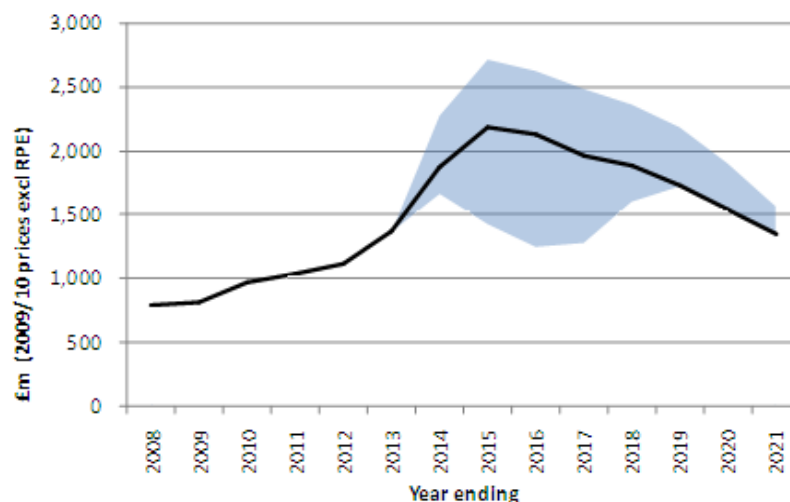
£16.8 bn

A challenging baseline plan



Electricity uncertainty mechanisms

Our baseline RIIO-T1 plan is only one view of the future...



Mechanisms we proposed:

- allow the regulatory control to adapt to an uncertain future
- ensure the RIIO-T1 package remains appropriate across a wide range of potential outcomes
- allow us to deliver desired outputs in future scenarios outside what is currently considered credible through the use of specific and targeted 're-openers'

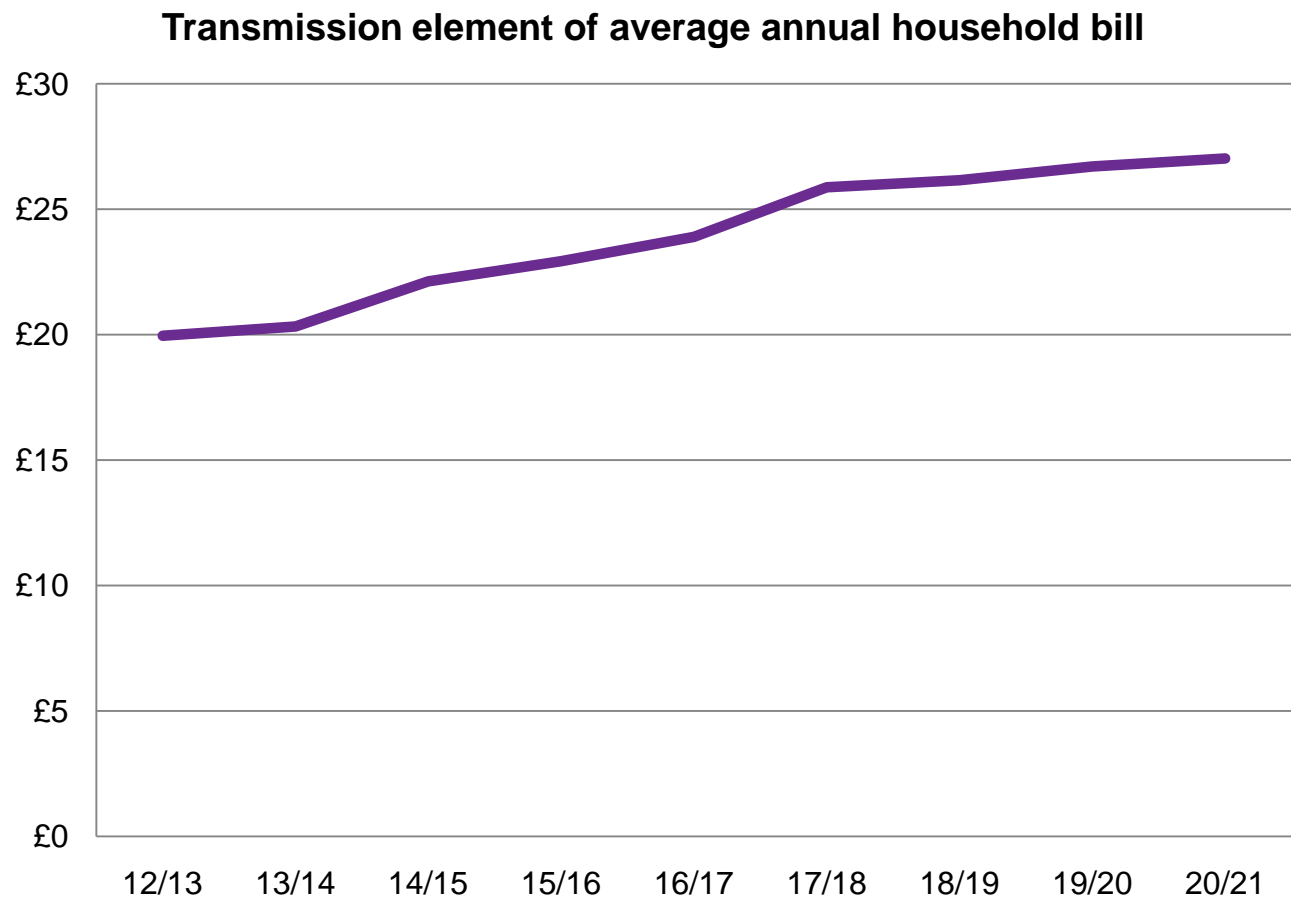
Electricity uncertainty mechanisms summary (1)

| Uncertainty | Base funding proposal | Proposed uncertainty mechanism |
|---------------------------------------|---|--|
| Wider works | Funding provided to cover 'gone green' scenario, excluding very large projects | Volume-driver for the provision of boundary capacity (£/MW/boundary) Specific re-opener for very large projects |
| Local generation connections | Funding provided to cover generation connections in 'gone green' scenario | Volume-drivers for generation connection (£/MW); enabling works (£/surplus MW/zone) and new overhead lines (£/km) |
| Demand-related infrastructure | Funding provided to cover baseline, constructed from DNO forecasts and discussions with direct connects (e.g. Network Rail) | Volume-drivers for demand connection (£/SGT) and new overhead lines (£/km) |
| Cost of meeting planning requirements | Funding provided to cover the undergrounding of 10% of all new overhead lines | Volume-driver for undergrounding of new overhead lines and other potential visual amenity mitigations (£/km) |
| Network renewal volumes | Funding provided to cover 'best view' volume & timing of asset replacement | Volume-driver based on the timing on asset replacement work Note: this mechanism has been split out from the generation and wider works mechanisms based on feedback from Ofgem |
| Real price effects | Funding provided to cover forecast of Real Price Effects in 'gone green' scenario | Copper price tracker with a time-delay (2 years) and a dead-band ($\pm 10\%$) |

Electricity uncertainty mechanisms summary (2)

| Uncertainty | Base funding proposal | Proposed uncertainty mechanism |
|--|--|--|
| Offshore network impact | Funding provided to cover 'gone green' scenario and an integrated offshore network solution | Specific re-opener with materiality threshold for the impact of changes to the offshore network regime |
| Design standard changes | Funding provided to cover 'gone green' scenario with the current security standards and grid code requirements | Specific re-opener with materiality threshold for the impact of security standard or grid code changes |
| Critical National Infrastructure | Funding provided to cover known requirements | Specific re-opener within specified windows with materiality threshold and value for money audit |
| Climate Change: Flood & erosion protection | No ex ante funding provided | Specific re-opener with materiality threshold |

At a cost of...

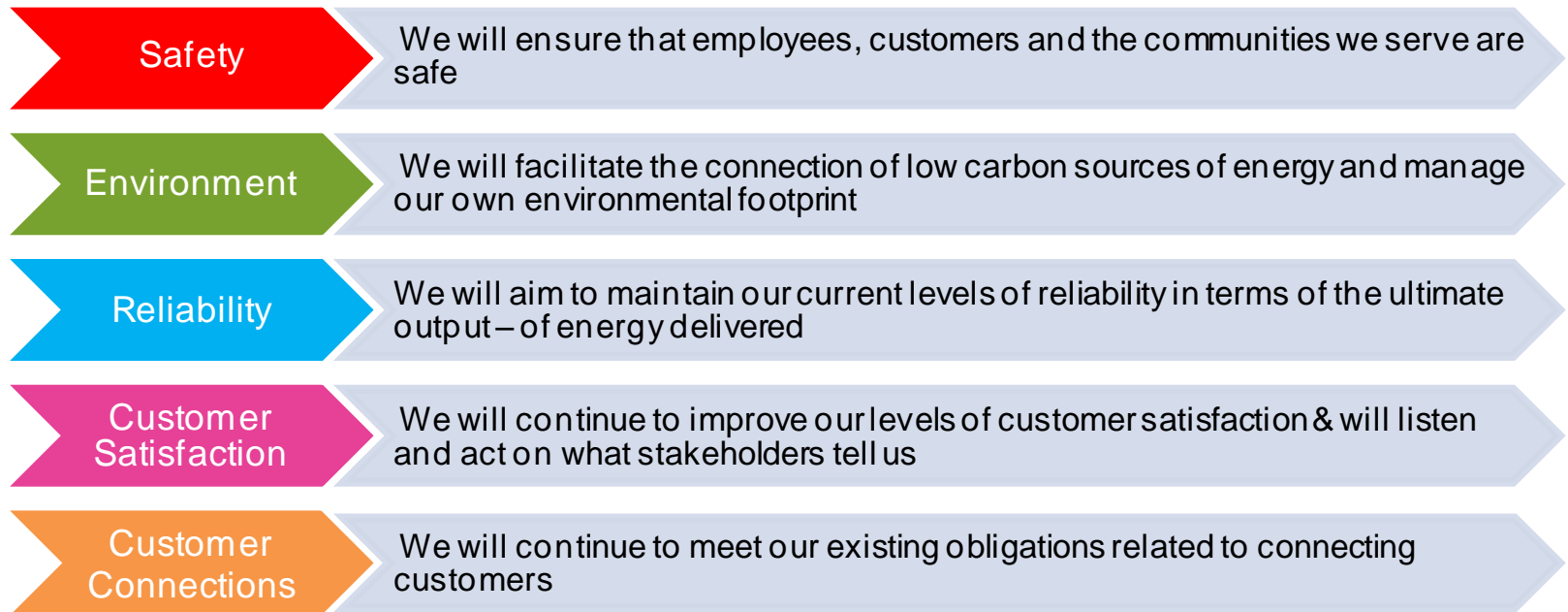


* In 2009/10 prices

NGGT

Our plan delivers...

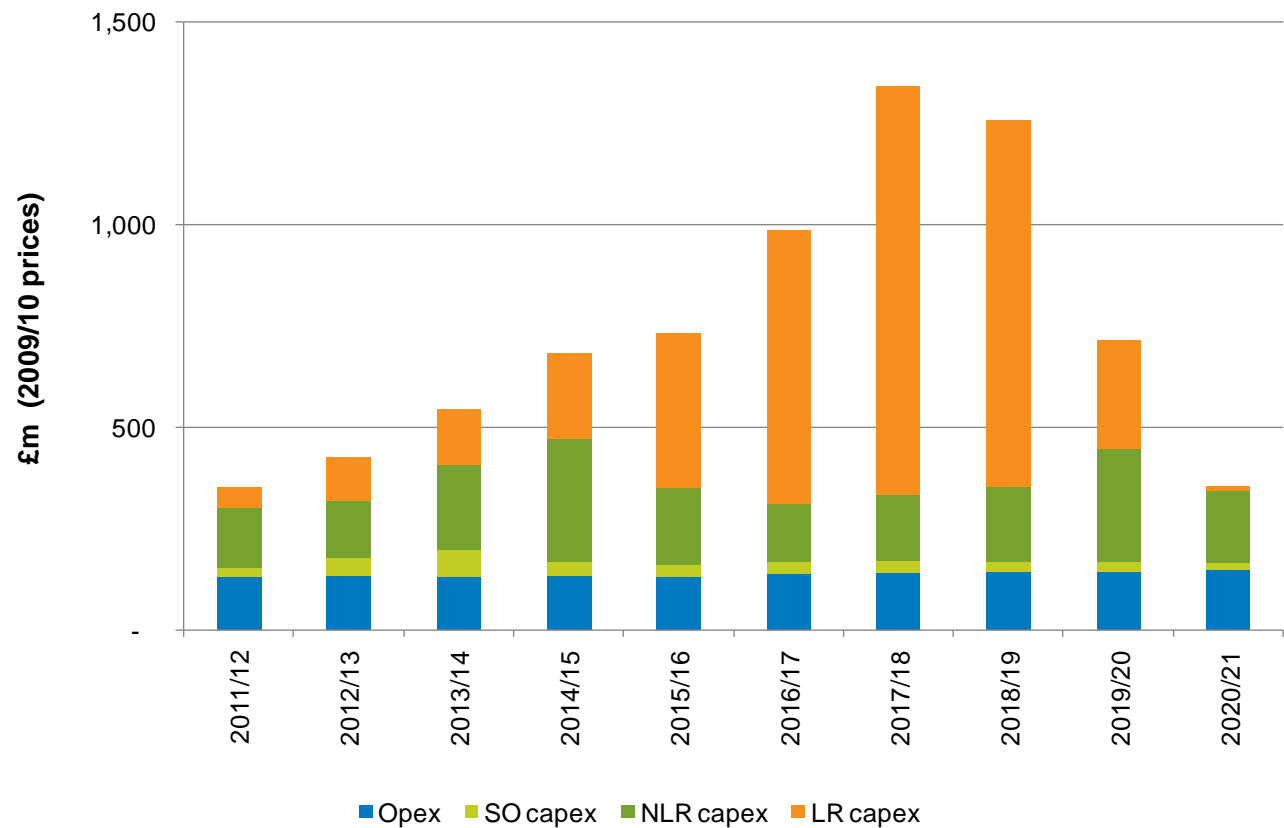
■ Outputs:



■ Assets:

- 1,083km of new pipeline
- 24 new compressor units (plus 2 decommissioned)

Gas baseline plan expenditure



Capex

£5.6 bn

+

Opex

£1.1 bn

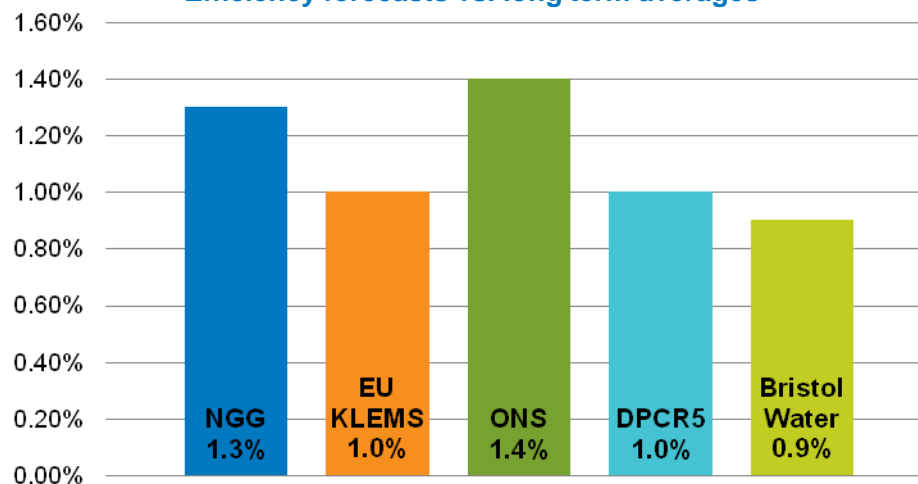
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**'Totex' over
RIIO-T1 period**

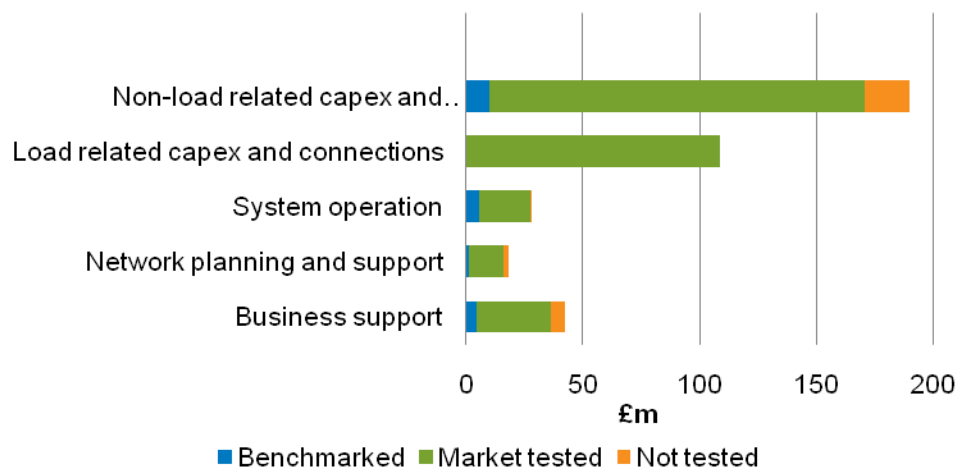
£6.7 bn

A challenging baseline plan

Efficiency forecasts vs. long term averages

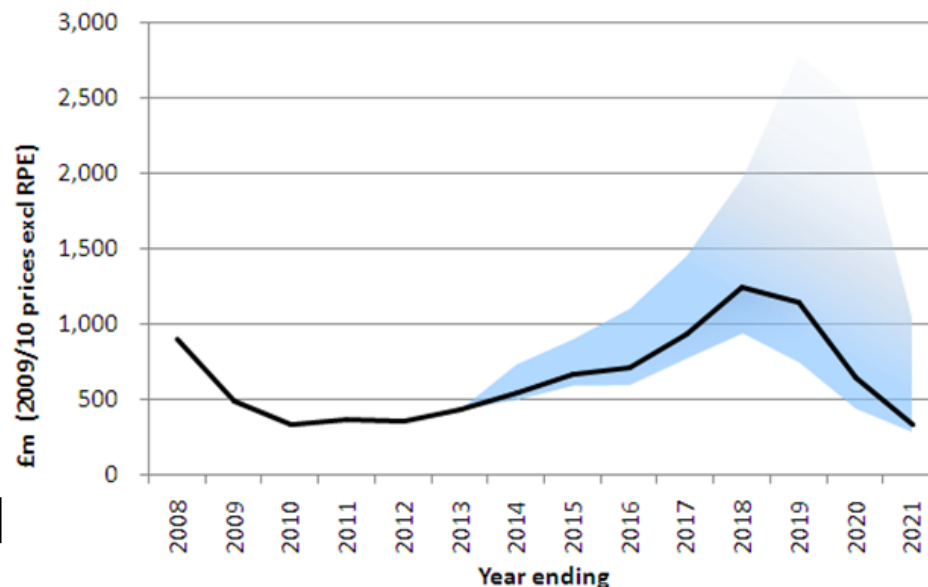


Benchmarking / testing



Gas uncertainty mechanisms

Our baseline RIIO-T1 plan is only one view of the future...



Mechanisms we proposed

- allow the regulatory control to adapt to an uncertain future
- ensure the RIIO-T1 package remains appropriate across a wide range of potential outcomes
- allow us to deliver desired outputs in future scenarios outside what is currently considered credible through the use of specific and targeted 're-openers'

Gas uncertainty mechanisms summary (1)

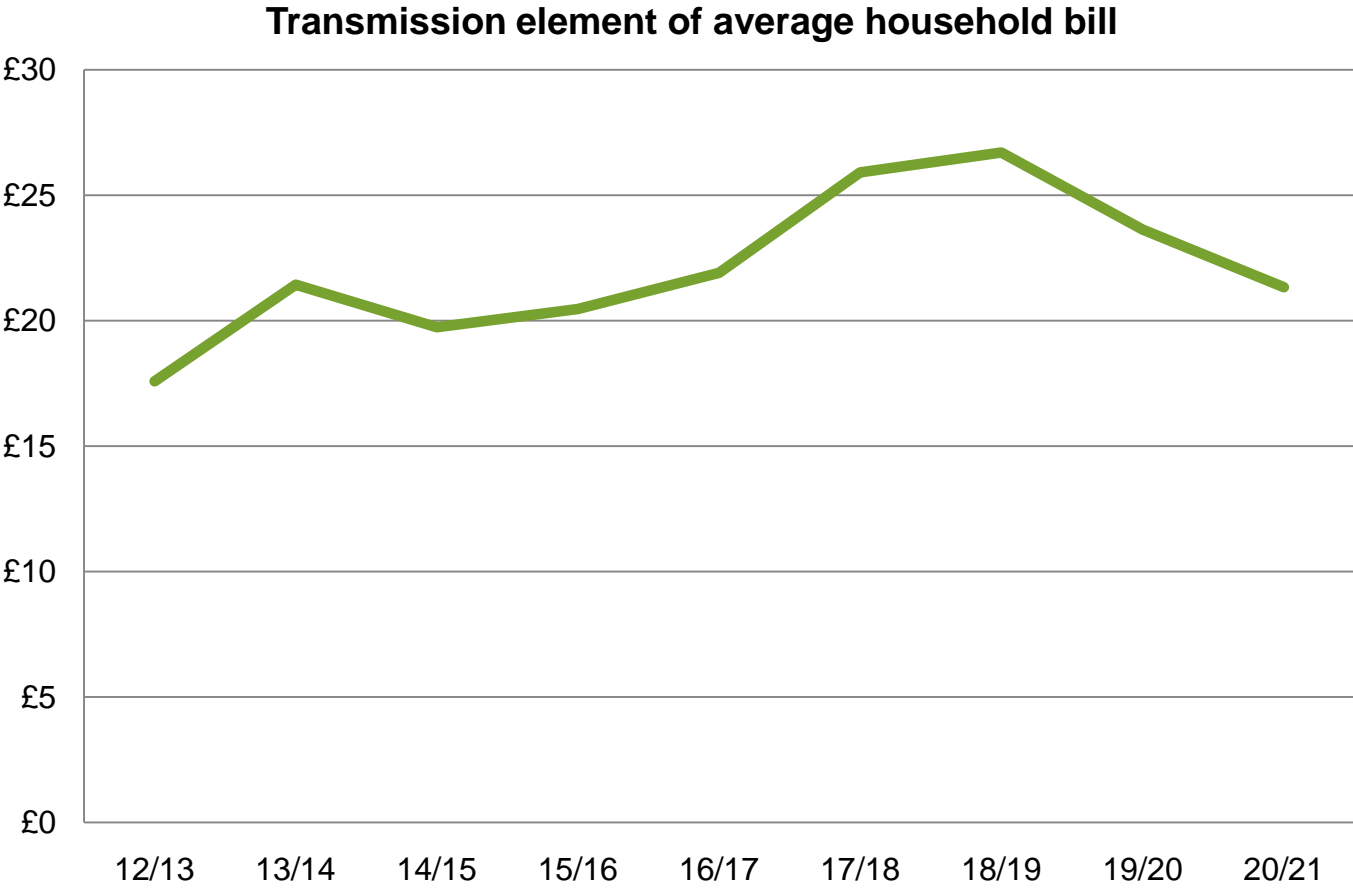
| Uncertainty | Base funding proposal | Proposed uncertainty mechanism |
|----------------------------------|---|---|
| Incremental Entry and Exit | <p>No ex-ante funding provided</p> <p>Note - funding arrangements to support incremental capacity is subject to ongoing discussions with Ofgem.</p> | <p>Funding will be provided in response to User driven signals.</p> <p>Specific re-opener to set forward-looking cost targets based on outcome of planning decisions (linked to the debate relating to alignment of connections and capacity processes).</p> |
| Network Flexibility | <p>Ex-ante funding provided to cover Scottish projects with small ex-ante allowance to allow progression of other categories of spend.</p> | <p>Specific re-opener to increase allowances as requirements for further levels of spend become clearer.</p> <p>Link to industry support (i.e. evidence the case through industry support for specific issues resulting in presentation to Ofgem to trigger the funding).</p> |
| Buybacks / Constraint Management | <p>No ex-ante funding provided.</p> <p>Note – ongoing discussions with Ofgem relating to form of scheme and funding options.</p> | <p>Continuation of current arrangements, including caps and collars on buyback exposure, extended to cover both entry and exit constraints.</p> |

Gas uncertainty mechanisms summary (2)

| Uncertainty | Base funding proposal | Proposed uncertainty mechanism |
|----------------------------------|--|---|
| Asset Health | Funding provided to cover projects identified in the RIIO-T1 plan. | Specific re-opener with materiality threshold for unexpected type faults or unforeseen/unforeseeable events. |
| Industrial Emissions Directive | Funding provided to cover projects identified in the RIIO-T1 plan. | Volume-driver based on total rated power of machines to be removed or replaced as deviation from central plan. |
| Real Price Effects | Funding provided to cover projects identified in the RIIO-T1 plan. | Steel price tracker with dead-band and time-lag. |
| Critical National Infrastructure | Funding provided to cover projects identified in the RIIO-T1 plan. | Specific re-opener windows with materiality threshold. |
| Europe | Funding provided to cover associated costs identified in the RIIO-T1 plan. | New category. Propose an ex-ante mechanism based on material changes (not already included in the plan) to the regime driven by European policy. |

The suite of uncertainty mechanisms proposed assumes the continuation of the existing general Income Adjusting provisions within the GT licence

At a cost of...






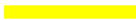

* In 2009/10 prices

Financeability

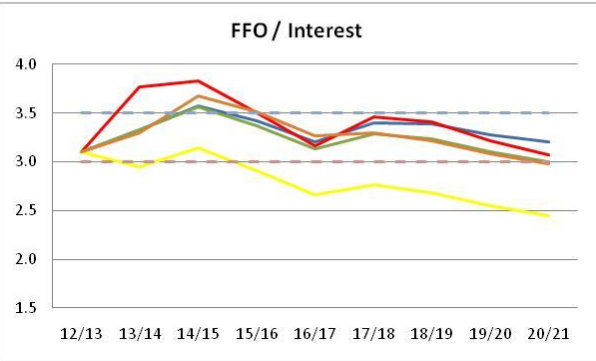
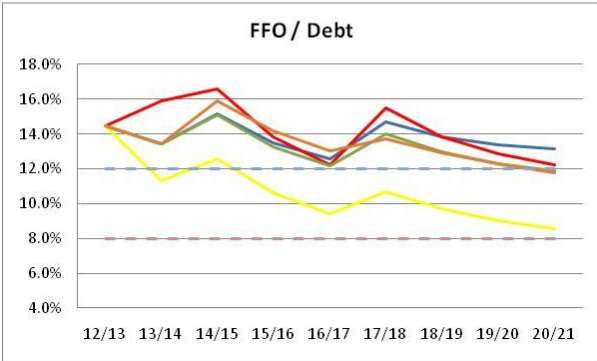
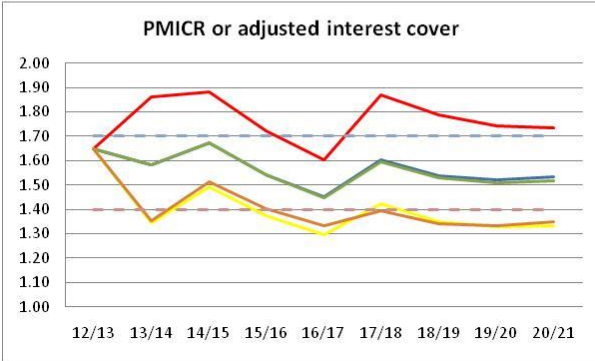
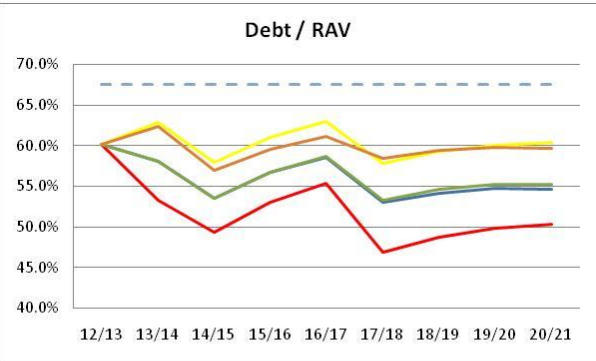
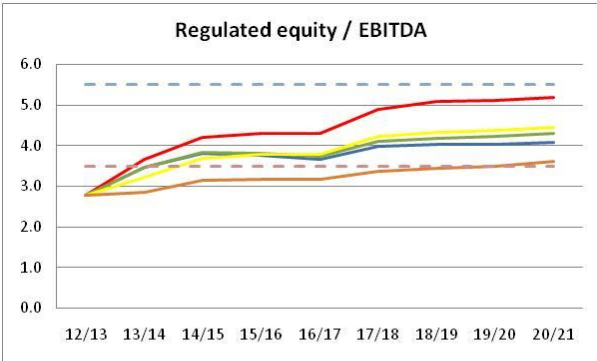
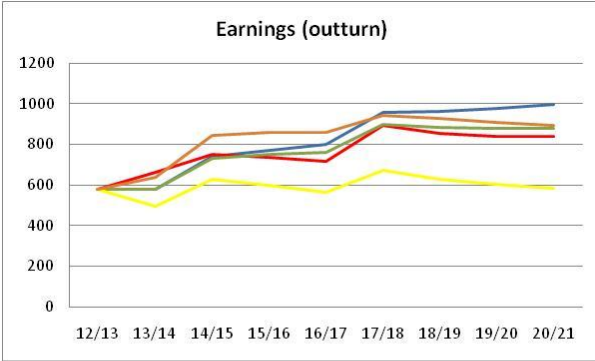
Financeability proposals

| | Electricity | Gas |
|----------------------------------|--|---|
| Return on Equity | 7.5% | 7.5% |
| Cost of Debt | Assumes 3.2% per Ofgem guidance | Assumes 3.2% per Ofgem guidance |
| Notional Gearing | 55% | 55% |
| Notional resulting WACC | 5.1% | 5.1% |
| Notional Equity Injection | £3bn plus retained earnings to maintain gearing | £1.1bn plus retained earnings to maintain gearing |
| Transitional measures | 2 regulatory period (16 years) transition to 45 year asset lives | Totex capitalisation rate of 72% |
| Policy changes | Efficiency incentive rate capped at 40% | Efficiency incentive rate capped at 40% |

Assessing financeability: electricity

-  2 period transition from 20 to 45 year asset lives & 55% gearing
-  1 period transition from 20 to 45 year asset lives & 55% gearing
-  50% gearing
-  No financeability adjustments and 60% gearing
-  1 period transition from 20 to 45 year asset lives & 80% totex capitalisation rate for the TO

Assessing financeability: electricity



Assessing financeability: gas

— 72% totex capitalisation rate for TO & 55% gearing

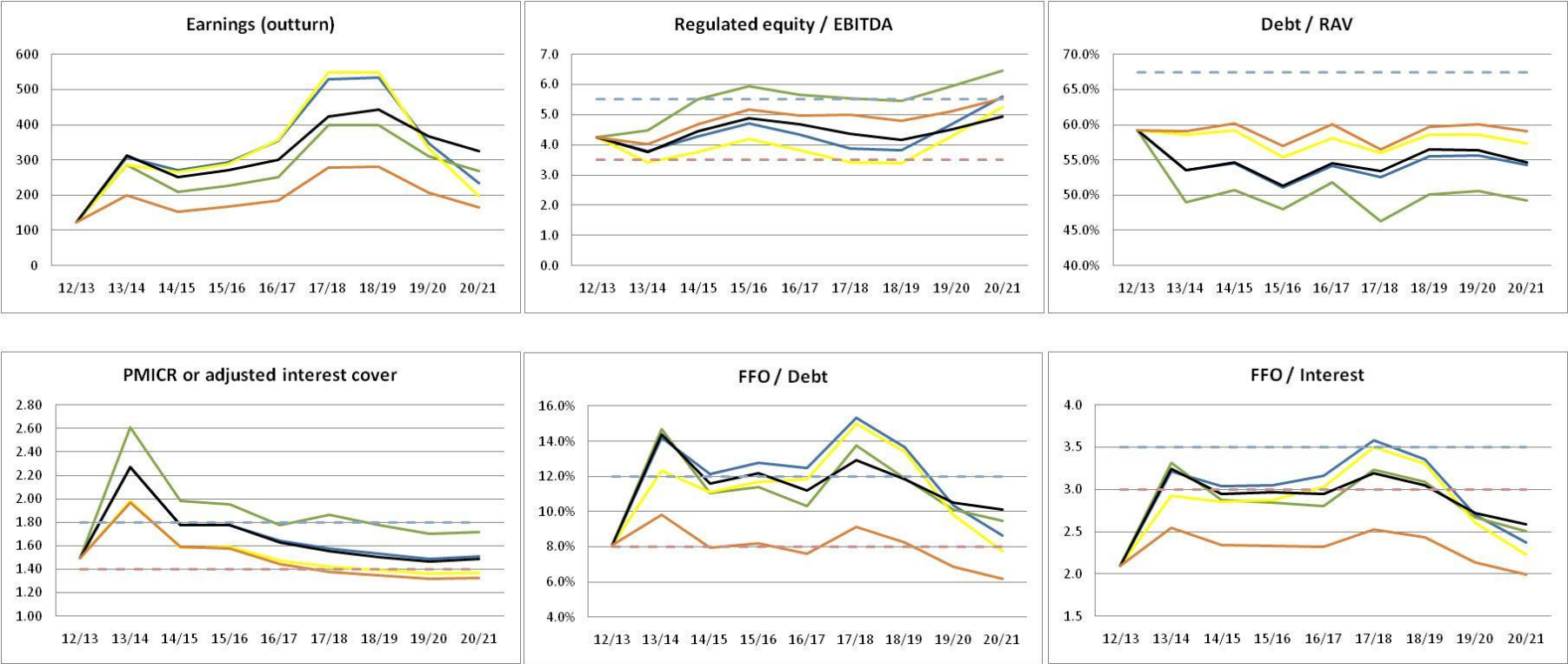
— 50% gearing

— RAV Drawdown & 55% gearing

— 68% totex capitalisation rate & 60% gearing

— No financeability adjustments & 60% gearing

Assessing financeability: gas



Progress since July 2011

Progress since July 2011

- Business plans published:
<http://www.talkingnetworkstx.com/business-plans.aspx>
- Listening to stakeholder views on the plans
 - Ofgem's feedback
 - Investor roadshows
 - Stakeholder engagement sessions

What we have heard...



- Stakeholders have generally liked our engagement so far
- But, there needs to be a more joined-up approach across the industry
- They appreciate the increased transparency compared to previous price controls
- They think there are still some issues which should be agreed between Ofgem and the networks
- Some topics require additional engagement
- Stakeholders anticipate further business plan development prior to March

Round 3 workshops: some early feedback

■ NGET

- Overall support for our approach to uncertainty mechanisms
- We need to do more on predictable and transparent charging
- Widespread call for greater innovation
- Majority agreement on SO investment plans

■ NGG

- Support for Network Investment in Scotland, not elsewhere
- Majority support for proposed SO incentives
- Overall support for our approach to uncertainty mechanisms
- Concern expressed about impact of planning act on 'transitional' projects

Next steps

What we are doing in response to stakeholder feedback

- Taking on board stakeholder comments about business plan structure
 - Producing stakeholder-friendly Overview documents for March
 - Improving signposting between sections of the business plan
- Engaging further with individuals or industry groups where stakeholders have told us this is necessary
- Updating business plans to take account of stakeholder views

What we are doing in response to Ofgem's feedback

areas of focus

Financial
proposals

Uncertainty
mechanisms

Balanced
stakeholder
engagement

RPE forecasts

The role of
innovation

Deliverability
(2014/15)

Electricity unit
costs

Sustainability

Gas network
flexibility

IT strategy

**Any
questions?**



SP TRANSMISSION

RIIO-T1

SP Transmission Business Plan Presentation to Price Control Review Forum

**Alan Michie
RIIO T1 Project Manager
2 December 2011**

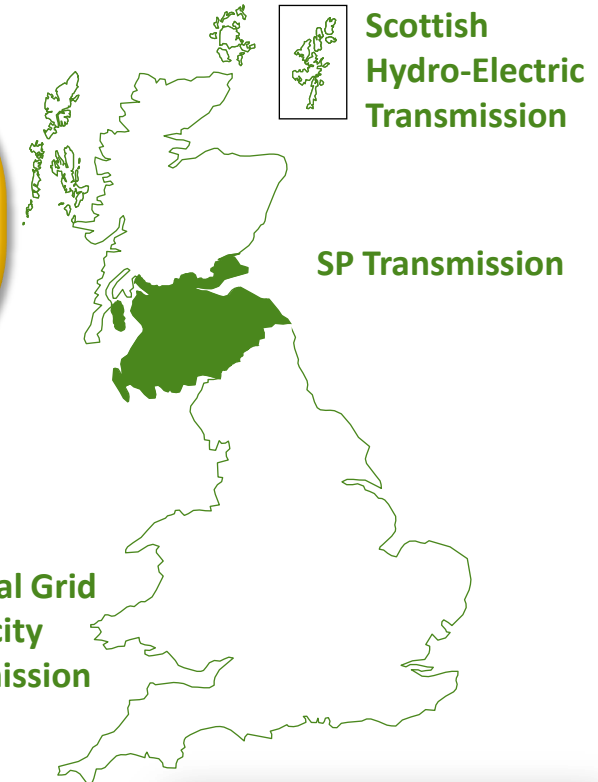
SP Transmission Overview

Achieves the transfer of electrical energy over potentially long distances from power stations to bulk supply points in the centres of demand:

- e.g. Dewar place substation supplies 33,000 customers
- Large industrial customers such as Network Rail, Shell, Esso

Principles of a good grid system:

- Reliability (minimising loss of supply)
- Efficiency (minimising electrical losses)
- Capacity (minimising generation constraints)



| Key Metrics | SPT | NGET | SHETL |
|---|-------|---------|--------|
| Overhead Circuit (km) | 3,700 | >14,000 | >5,000 |
| Underground Circuit (km) | 300 | 700 | 70 |
| System maximum demand (GW) | 4.1 | 53.4 | 1.6 |
| Total directly connected generation (GW) | 7.5 | 70+ | 3 |
| Total directly connected wind generation (GW) | 1.4 | 0 | 0.3 |



Dewar Place Grid Supply Point

RIO-T1 Investment Requirements

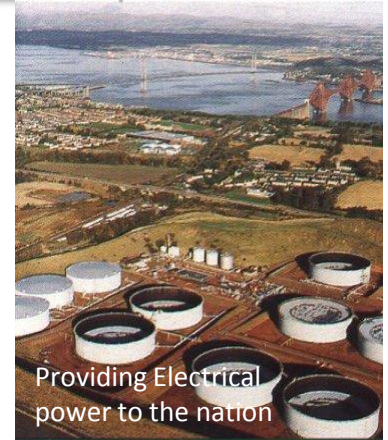
RIO –T1 Price Control:
Extended 8 year period from 2013-2021

Customer Focus:
Manage the risk of an aging asset base ensuring current performance levels are maintained

Environmental Focus:
Help deliver ambitious carbon reduction targets

Innovation Focus - Future Customers:
Provide connections to deliver a different generation mix and deliver European and UK Government low carbon targets

Total Expenditure of up to £3,000M



What we will deliver

Up to £3,000M of Capital Investment

Load Related Expenditure

– new connections to meet evolving generation mix requirements

67%



Reduced constraints of £1.7bn cumulative by 2021.
Reduced carbon emissions (over 45 million tonnes of CO₂).
Without this investment the cumulative constraint costs would rise to £16bn by 2030.

Non-Load

– refurbishment and rebuilding of existing ageing assets

33%



Provide a safe, secure, reliable network for customers and stakeholders with a wide range of needs and expectations

Innovation

Project
IFI IA NIC



Increase B6 capacity from 2,800MW to 6,600MW
Maximise use of existing assets
Avoid new build

| | 12/13 | 13/14 | 14/15 | 15/16 | 16/17 | 17/18 | 18/19 | 19/20 | 20/21 |
|------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Closing RAV (£M) | 1,486 | 1,832 | 2,217 | 2,502 | 2,676 | 2,847 | 3,019 | 3,174 | 3,186 |

Our Plans are based on “Gone Green” demand and also meet our stakeholder requirements

What we require in order to deliver the plan

Requirement

Justification

Return on Equity 7.2%



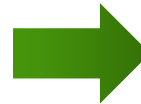
- A minimum to attract and retain equity
- Part of a holistic funding plan

Depreciation 45 years



- Longer lives reflects RIIO policy
- Transition over 8-years to mitigate cash reduction

Incentives & Risk Factors (RORE) -80 to -90 bps



- Negative skew
- Output risk
- Expected Actual Interest > Index
- Real Price Effects

Financeability A -



- Investment grade rating targeted after full risk assessment

Given the risk inherent in RIIO we require A/A- cash flows

The engineering of our plan – Non Load

Investment for Non-Load in RIIO-T1 (Best View, including baseline): £697m

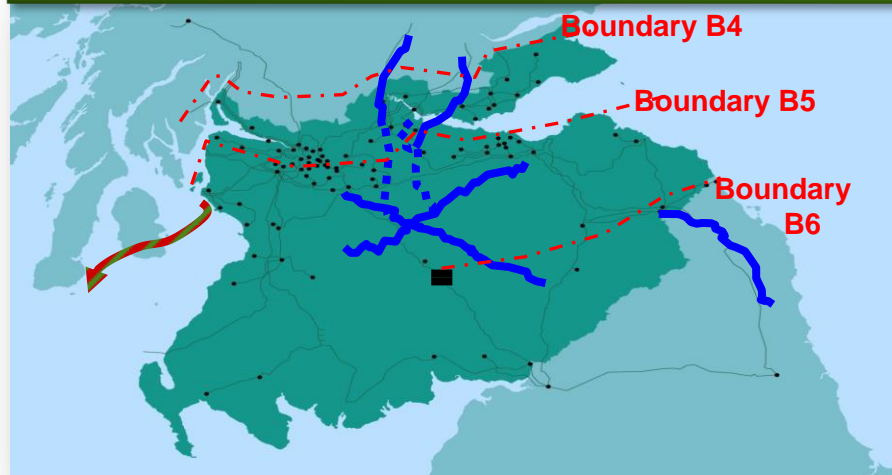
Network also provides capacity for 10% E&W customers through interconnection

| Asset type | Issue | Condition assessment | Risk factor | Output | % of Non Load Programme | £ (m) |
|------------|---|---|---|--|-------------------------|-------|
| OHL | 59 % End of Life conductor (2191 circuit km) | 100% Condition Assessment (Schwem & Thermal 2 &10 yr) | Risks security of supply to 1.2m customers due to risk of widespread breakage of conductor around network | 876 circuit km of HI5 replaced (24 %). Security risk improved to 0.5m customers. (0.7m still at risk) | 44% | 309 |
| Switchgear | 52 % End of life circuit breakers (211 units) | 100% Condition & Performance Assessment (+Timing, Resistance & Insulation (3yr& 6 yr)& online SCADA & fault recorder | Risks security of supply to 1.0m customers & prevents injury to public & staff due to explosion of switchgear | 77 units of HI5 replaced (48%). Security risk improved to 0.4m customers. (0.6m still at risk) | 14% | 118 |

Strong asset stewardship provides safe, reliable transmission of energy to 1.9m customers

The engineering of our plan – Load

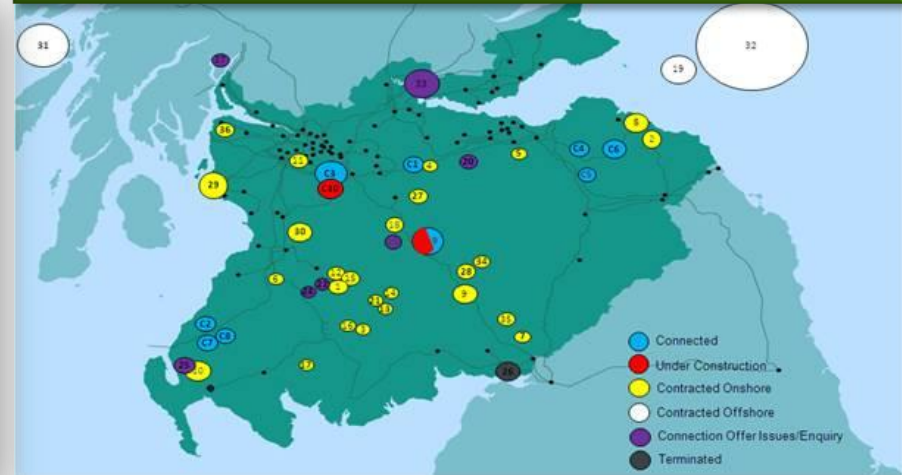
Reinforcement



All Scotland

- Wind generation from 3.4 GW to 11.4GW
- Overall generation increases from 11 GW to 20 GW
- Maximum demand of only 6 GW

Connections

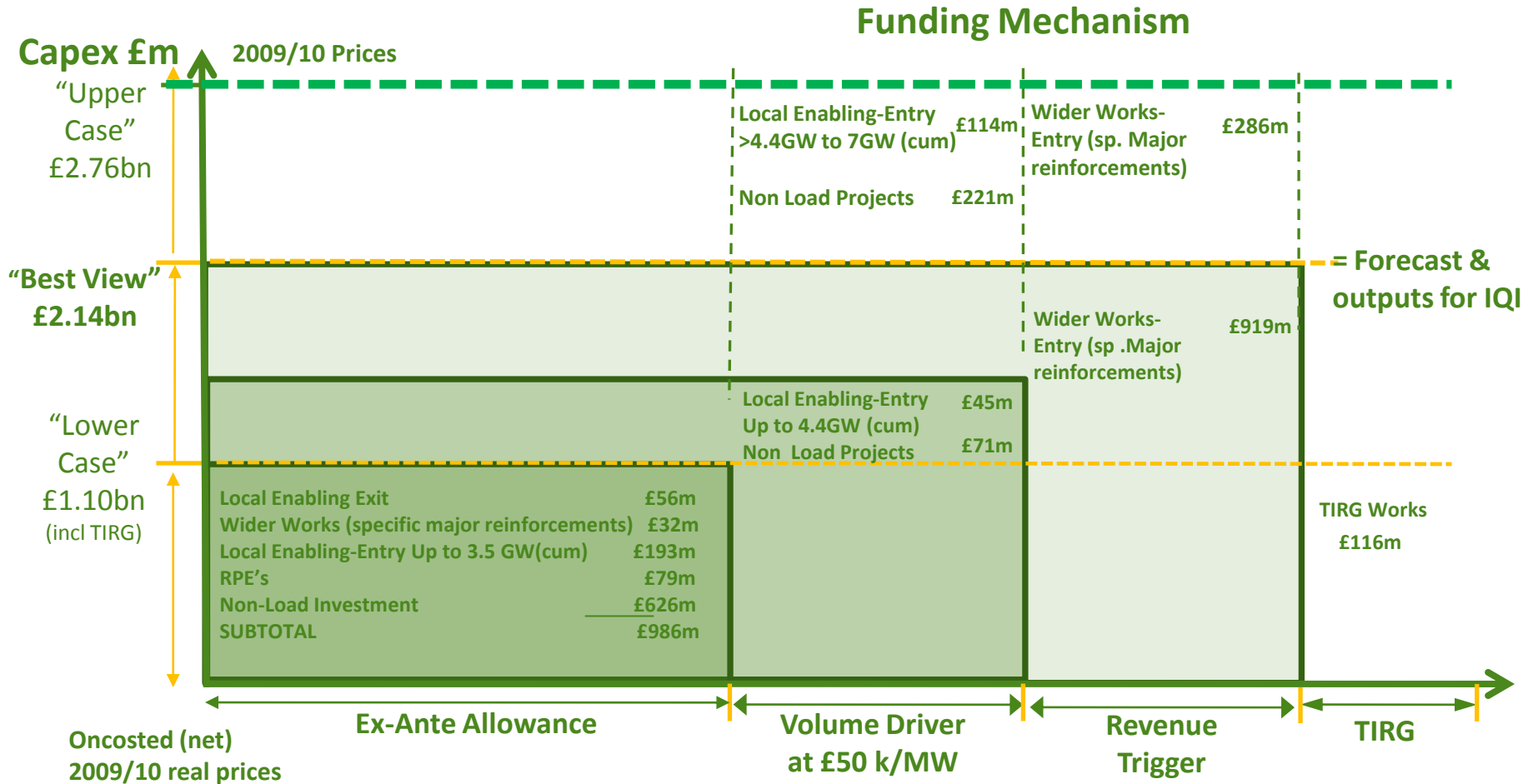


Generation (including embedded) - Summary

| | | |
|---------------------------------------|-----------|--|
| Current (2013) | 2,400MW | } Best view 2,800MW. (Cumulative 5,200MW) |
| Relatively Certain | 1,820MW | |
| Advanced Planning | 993MW | |
| Prospective | 6,870 MW | |
| Total | 12,264 MW | |
| Connection revenue driver at £50 k/MW | | |

Our load investment is essential to deliver Government Energy Policy

Minimising costs to customers



Flexible funding mechanism to scale delivery – minimises initial costs to customers

Minimum baseline reflects projects that are relatively certain
Best View reflects developments that have Advanced plans
Upper Case reflects Prospective Projects

Our plans for innovation

- We fully support Network Innovation Competition (NIC) and Innovation Allowance (IA)
 - We are actively collaborating with National Grid (as cited in National Grid's latest IFI report)
- We see three areas for innovation mechanisms:
 - Maintain security of supply
 - Accommodate new network users with sustainable developments
 - Deploy alternative and SMART technologies which change the way we use the network.

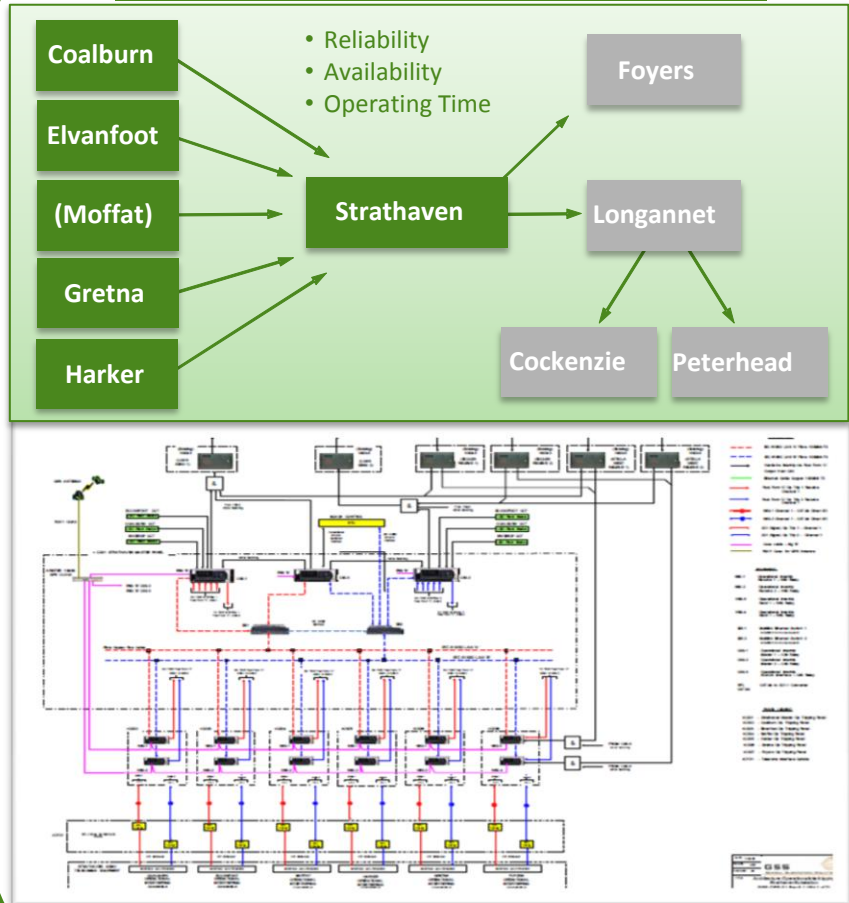
Examples of Current Innovation

- Intertrip (see adjacent diagram). £700k total cost gives constraint benefit of £1m / week
- Hot wiring. Facilitate 600MW additional S-E capacity
- Shunt Compensation. 500MW additional S-E capacity
- Load management schemes for wind farm connections

Examples of Planned Innovation during RIIO-T1

- Series Compensation. +1100MW S-E capacity
- HVDC . + 2200MW S-E capacity.
- Reconductor Dalmally -Windyhill circuit & run hot
- New Protection and Control - IEC 61850
- Wide Area Monitoring. We are industry leaders.
- Phase shift transformers for wind farm connections

Boundary B6 (Scotland-England) Intertrip High level design and scheme architecture



Our innovation has already made a significant contribution to facilitating renewables

Our plans for deliverability

IEC will give us the capability to deliver the scale of investment required over RIIO-T1

Non load (asset replacement) programme can be linked and **co delivered** with load projects

Flexibility included in plans to help manage potential issues around planning consents, outage availability etc

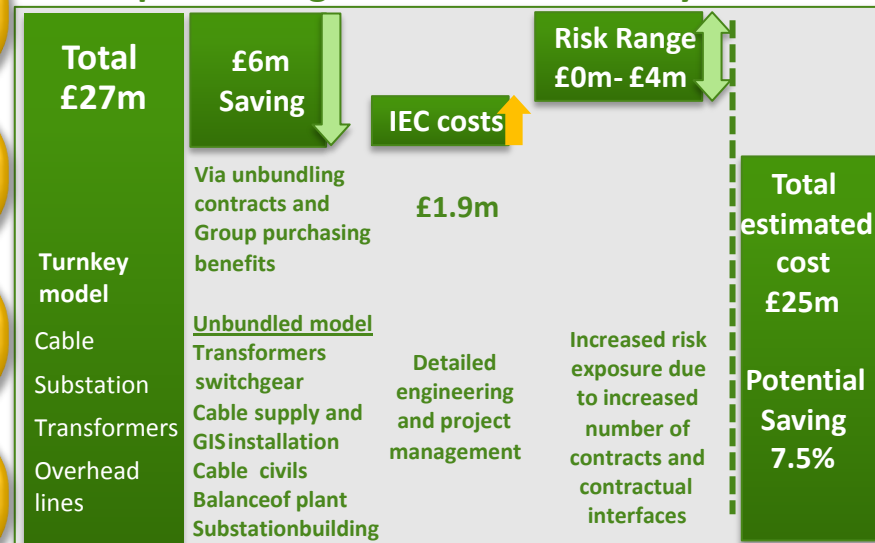
Formal arrangement in place with **Iberdrola Engineering and Construction (IEC)** to deliver transmission capital projects

IEC has increased its UK staff from 99 in 2010 to 156 in 2011, and will further increase staff to 241 by 2014.

The benefits of using IEC include:

- Improved leverage via global purchasing
- Project elements can be disaggregated
- Does not constrain purchasing in dealing with a limited turnkey supply market.
- Technical and commercial risks managed and controlled in house


Example – Glasgow East -IEC Delivery Benefits



Deliverability – Our track record

- ✓ 2,800MW Upgrade, Moyle connection, Sloy-Inverarnon
- ✓ Boundary B6 Intertrip scheme
- ✓ 1,756MW renewable generation connected over TPCR4 compared with Ofgem revenue driver of 1,734MW.
- ✓ Non-load investment - expect to outturn close to TPCR4 allowance

A fair balance between shareholder's and customer's interests

| Key Assumptions | | Shareholder Return | | Interest Allowance | | Depreciation Allowance | | Assumed Gearing | | |
|---|-------------------------|---|---------|--------------------|---------|-----------------------------|---------|-----------------|---------|----------|
| | | 7.2% | | Trailing average | | Straight line 45 year lives | | 50% | | |
|  | Inputs | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | Total |
| | Capex | £437 M | £494 M | £402 M | £300 M | £306 M | £314 M | £302 M | £157 M | £2,713 M |
| | Opex | £21M | £22M | £23M | £26M | £26M | £28M | £30M | £31M | £207 M |
| | Headcount | Up to 1,500 incremental FTEs to deliver RIIQ-T1 Business Plan | | | | | | | | |
| | Consequences (pre-risk) | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | Total |
| Revenue Requirement | | £292 M | £335 M | £376 M | £407 M | £431 M | £454 M | £478 M | £501 M | £3,274M |
| Net Cash Flow | | -£177 M | -£193 M | -£233 M | -£119 M | £37M | £-109 M | -£85 M | £54 M | |
| Credit Stats | | Comfortably investment grade | | | | | | | | |

Stress test all cash flows for following four key risk factors to maintain investment grade rating:

1. High overall capex risk
2. Safety margin for inflation shocks
3. Safety margin for interest rate shocks
4. Lack of incentive outperformance opportunity

Summary

Comprehensive Plans align with Government Policy and stakeholder requirements

Given risk, we require A/A- cash flows

Our plan provides right balance between financeability, risk and customer impact

Flexible funding mechanism to scale delivery – minimises initial costs to customers

Our innovation has already made a significant contribution to facilitating renewables

IEC will gives us capability to deliver scale of investment required over RIIO-T1

Clear focus in our organisation on sustainability and environment





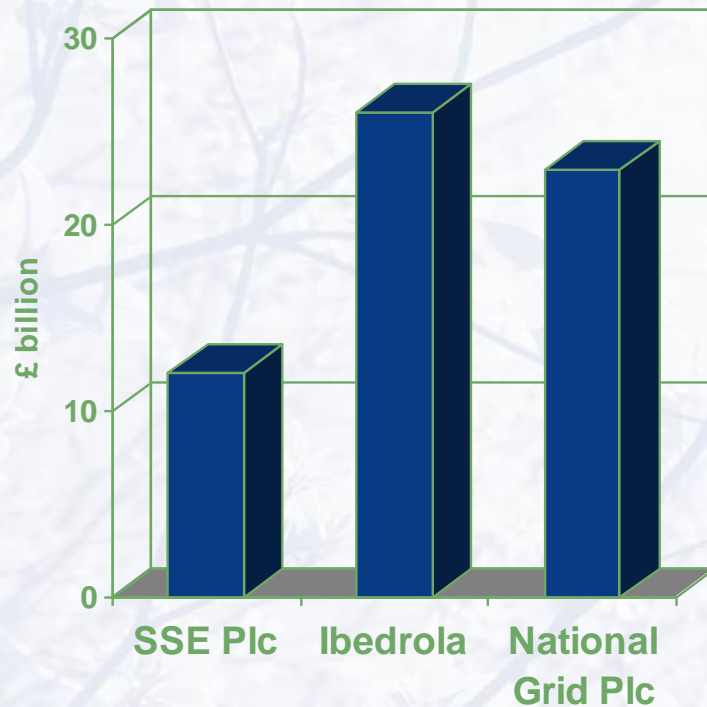
Scottish Hydro Electric Transmission Limited

An update on our Business Plan

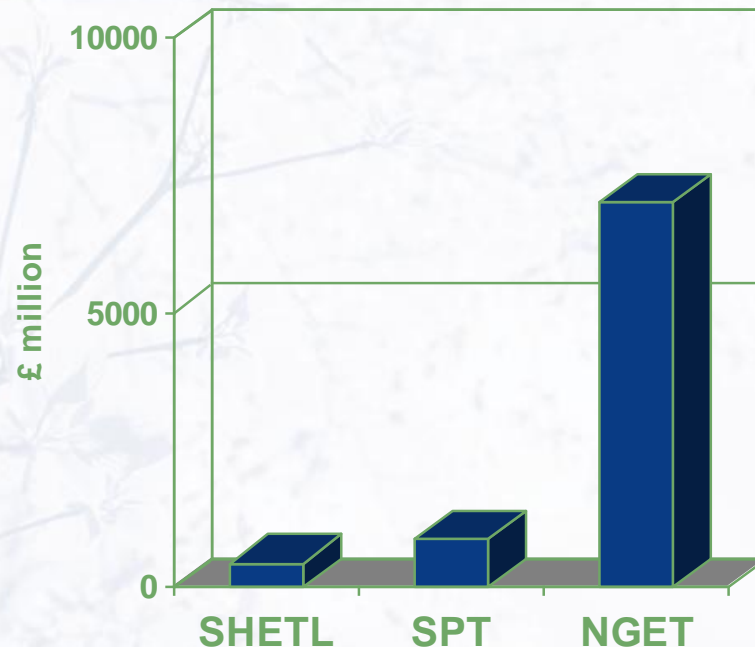
Scottish Hydro Electric Transmission Limited

A small company...

Market Capitalisation

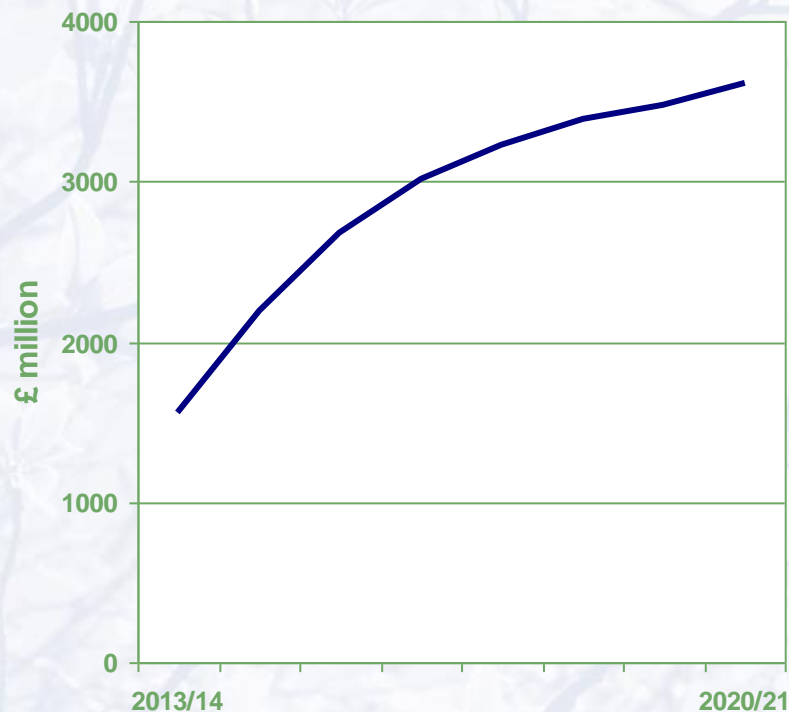


Regulatory Asset Value

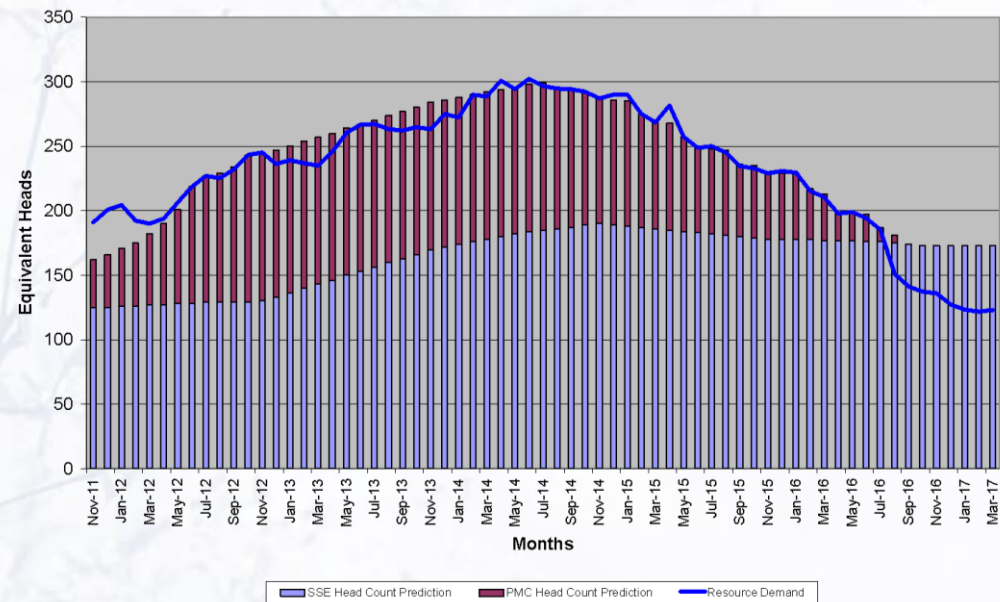


Scottish Hydro Electric Transmission Limited ... with big ambitions

RIIO-T1 RAV growth



Preparing our manpower for RIIO-T1



OUR BUSINESS PLAN



Stakeholder Engagement

"What you have told us"

'Business as usual' expenditure

"Maintaining a safe, reliable supply of electricity"

Customer Service

"Someone to talk to"

Growth capital expenditure

"Supporting the growth of the low carbon economy"

Sustainability

"Doing our best to look after the environment"

Tariffs

"What will our plans cost you?"

Since July we have:

- Published our Stakeholder Business Plan Update
- Issued a Progress Report on our Major Transmission Projects
- Conducted a Stakeholder Consultation on Reliability Incentives
- Held further meetings with a number of our Stakeholders
- Reviewed our approach and updated our Contact List

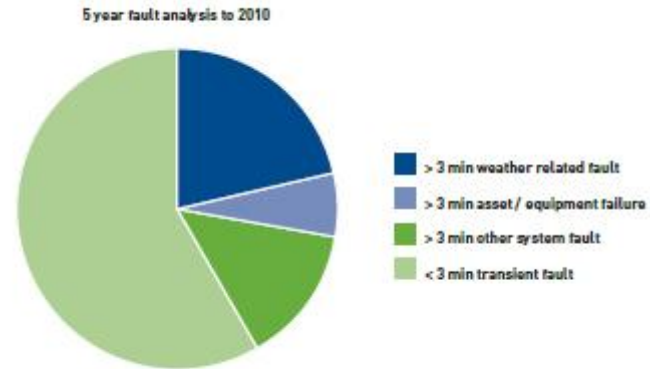
Our plans to continue engaging with stakeholders throughout RIIO-T1 have not materially changed



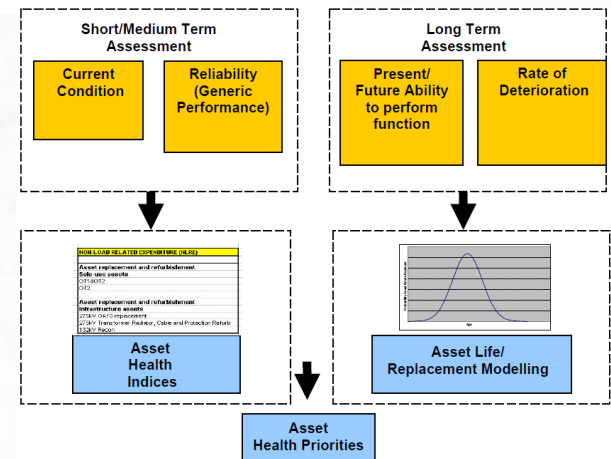
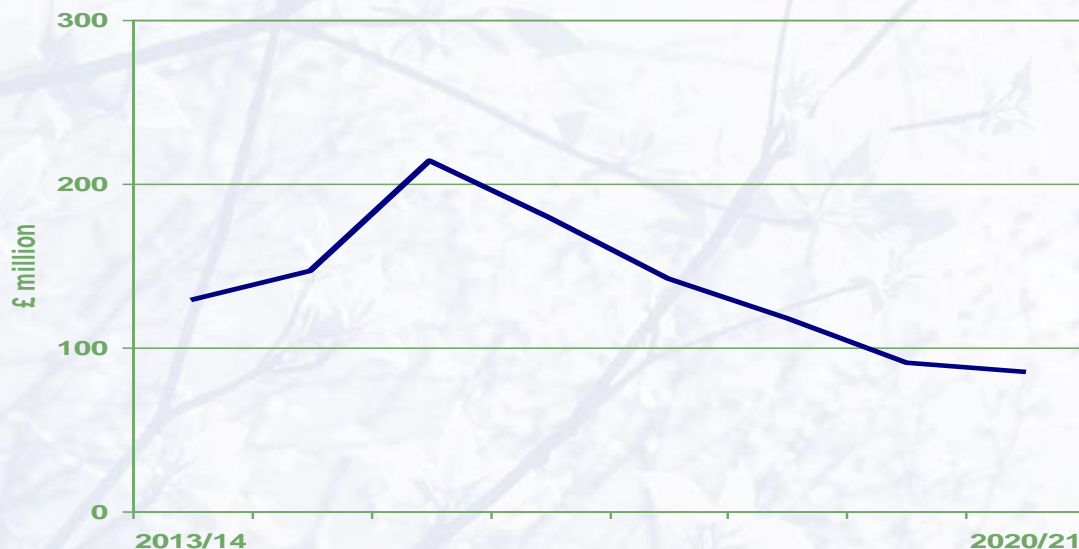
BUSINESS AS USUAL EXPENDITURE



THE SAFETY FAMILY
It's the way we do things



Business as Usual Expenditure Forecast, 09/10 prices

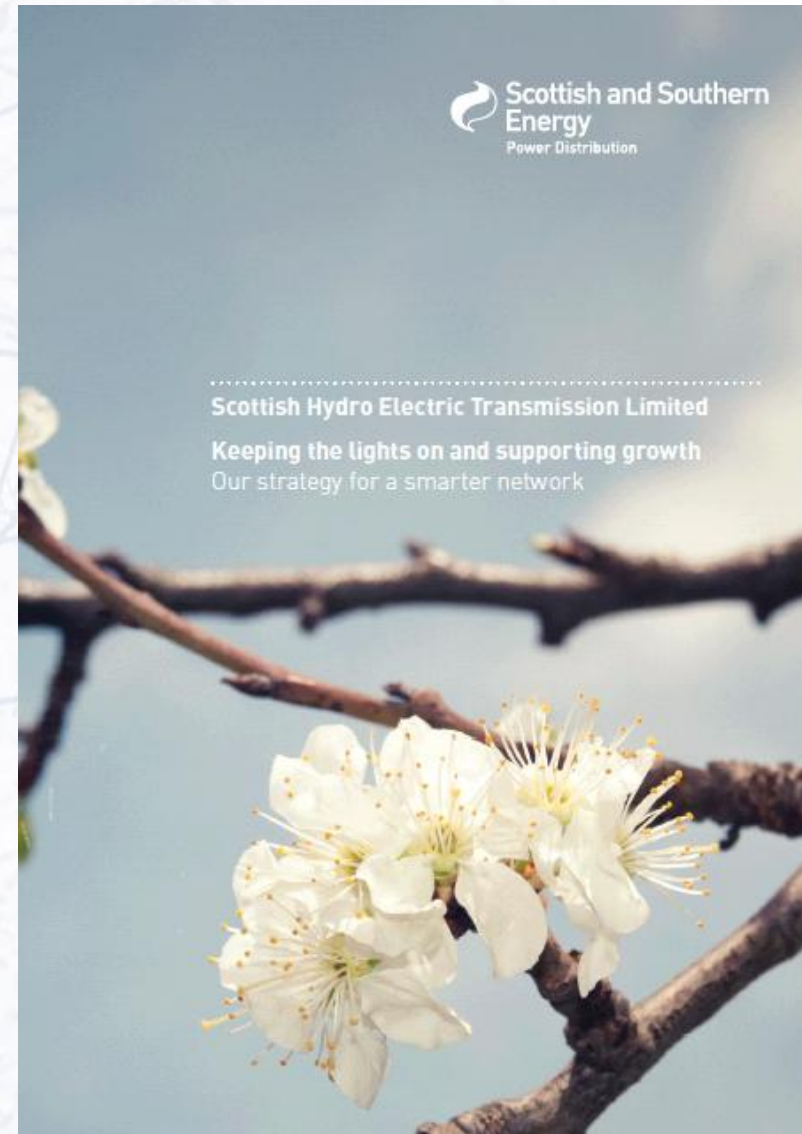


BUSINESS AS USUAL EXPENDITURE

In our Business Plan, we set out that safety would remain our number one priority and we proposed to maintain current levels of reliability.

Since July we have:

- Consulted on our proposals for the reliability incentive (Energy Not Supplied)
- In discussion with Ofgem, developed our thinking in relation to use of totex and sharing factors
- Provided additional information to Ofgem, especially to demonstrate cost efficiency
- Prepared an update to our Innovation Strategy (to be published in the New Year)



In our Business Plan we set out our plans to publish a Customer Charter

Since July, we have been preparing our first draft and expect it to include commitments on the following:

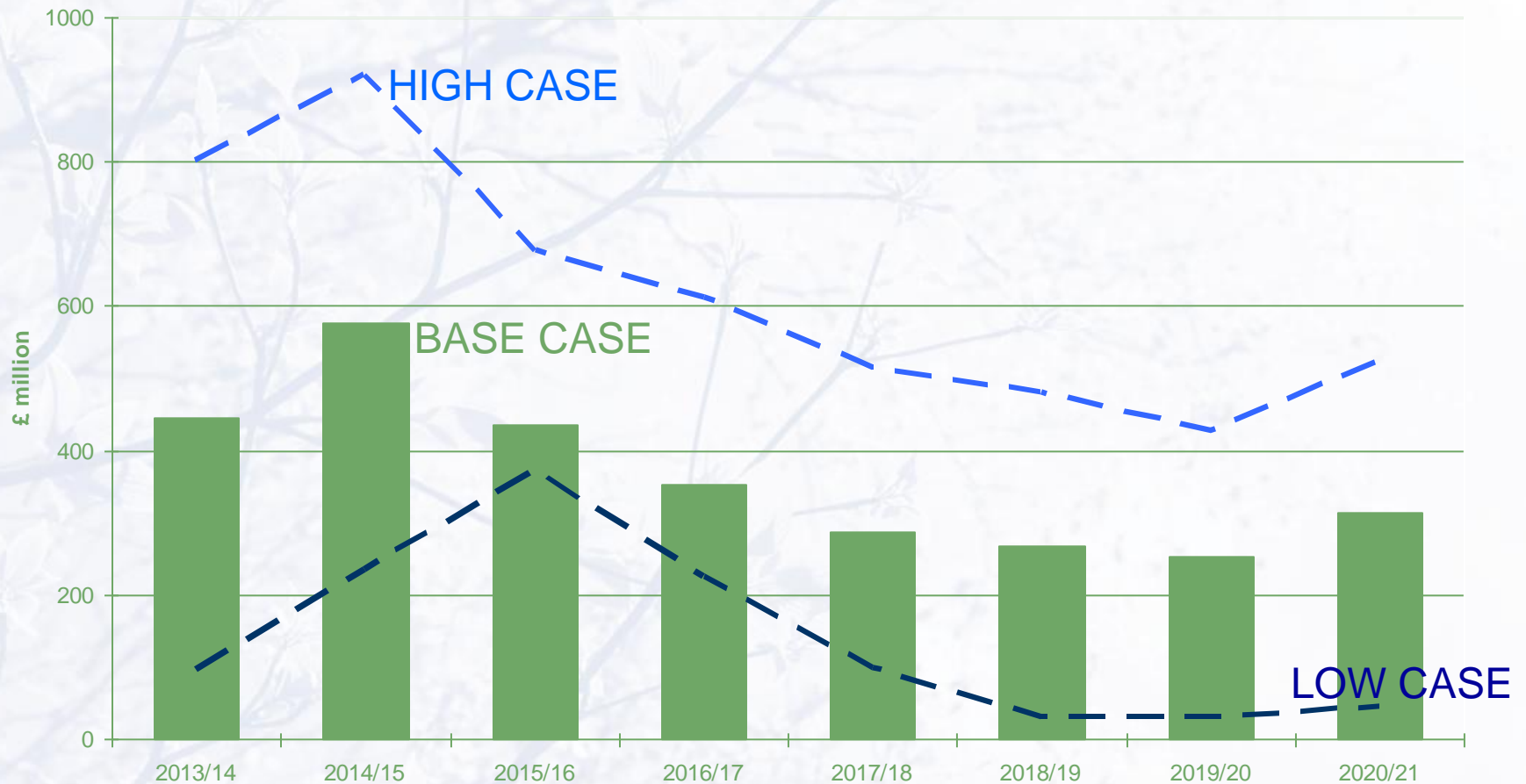
- Telephone response time
- Confirmation of connection application
- Making of connection offers
- Notice periods for access to private property

We have also been working with Ofgem, National Grid and Scottish Power to develop an appropriate incentive mechanism



GROWTH CAPITAL EXPENDITURE

Capital expenditure scenarios modelled in our Business Plan



Scottish Hydro Electric Transmission Limited

Detail of RIIO-T1 TII-type funding mechanism, draft 21 November 2011

BEFORE ASSESSMENT BEGINS (c.3 months)

Clear qualification criteria for projects

Cost allowance is 'totex' (sum capital and operating costs over RIIO-T1), capitalisation pre-determined; sharing factor pre-determined; financial assumptions (e.g. cost of capital, depreciation) as RIIO-T1 settlement

Notification period of intent to begin assessment

Ofgem confirm project meets qualification criteria

Post notification, agreement of timeline between Ofgem and SHETL (if appropriate in consultation with affected users) within prescribed period including key submission and decision dates for each part of the assessment in line with standard template

Stakeholder notification of project and assessment timeline

Outcome: agreed and published timeline

ASSESSMENT PERIOD (c.9 months)

Two-part assessment process: (i) needs case, and (ii) technical (including costs and outputs)

For both parts, clear submission requirements and assessment criteria (e.g. SQSS, strategic investment, user commitment)

Use of joint consultants under standardised Terms of Reference

Both parties appoint project management for Q&A, consultants, meetings, etc.

Licence condition agreed at RIIO-T1 settlement; schedule modified for project-specific costs and outputs as determined

Outcome: licence modification for annual cost allowance and project output measures

DURING CONSTRUCTION

SHETL required to submit annual reports (costs audited with accounts) during construction period and Ofgem required to respond – made available to stakeholders

Asset value adjusting event provisions in licence for prescribed circumstances, e.g. force majeure, Authority determination: criteria, process, information requirements, timeline

Output measures (technical, date) adjusting event provisions in licence: criteria, process, information requirements, timeline

Revenue adjusted annually with two-year lag through totex incentive (not project-specific)

Outcome: All parties able to monitor progress; amendments made (if required); totex incentive applied

AFTER CONSTRUCTION

SHETL notify Ofgem and stakeholders of delivery of output measures, and submit technical completion report

Within prescribed period, Ofgem confirm output measures have been met (actual expenditure deemed efficient, i.e. no ex-post efficiency assessment required); totex incentive continues to 'true-up' revenue and RAV adjustment made at RIIO-T2

If within prescribed period, Ofgem advise output measures have not been met, agreement of timeline for efficiency assessment between Ofgem and SHETL within prescribed period including key submission and decision dates; licence sets out criteria, process, information requirements, impact

Outcome: Output measures delivered and RAV true-up at RIIO-T2 or clear process if output measures not delivered

Our plans for growing our network to accommodate renewables was a big issue for our stakeholders. Our Business Plan sought to ensure that we would be able to build the right thing at the right time, and so keep down costs for consumers.

Since July we have:

- Contributed to updated ENSG scenarios – due to be published imminently
- Published our Progress Report on our Major Transmission Projects
- Developed our thinking on the mechanism for Within Period Cost Determinations
- Developed our thinking in relation to use of totex and sharing factors
- Updated our Network Availability Policy

“We operate ethically, taking the long-term view to achieve growth while safeguarding the environment”

Since July we have:

- Revised our Vision Statement on SHETL's contribution to the SSE Group's Sustainability Goal
- Provided further detail to Ofgem in relation to the SF6 incentive
- Developed a draft proforma for our Annual Environmental Statement
- Prepared a draft statement on our approach to Visual Amenity (to be published in the New Year)

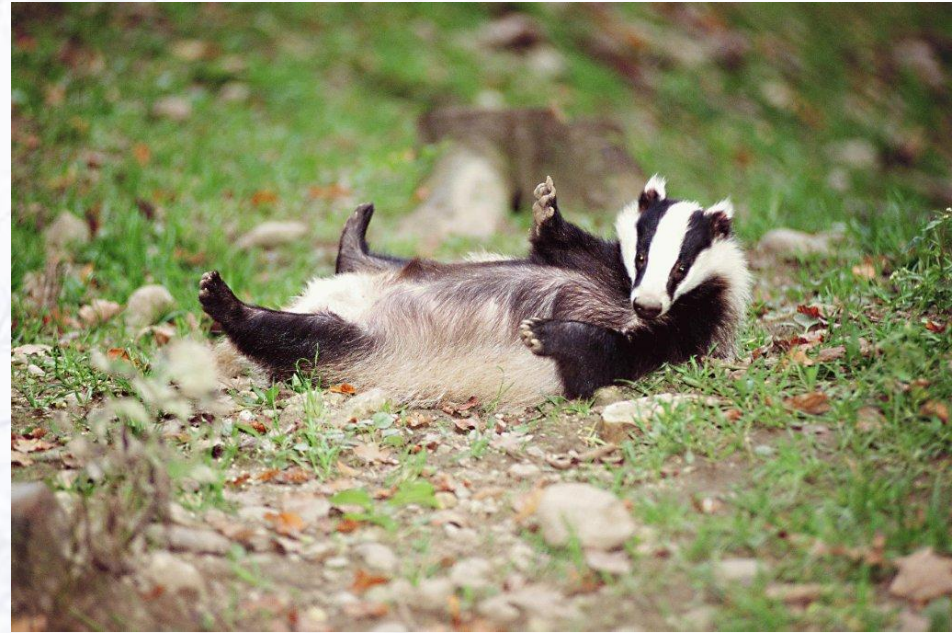


Figure 7.1: Share of transmission costs by Company (2009/10)

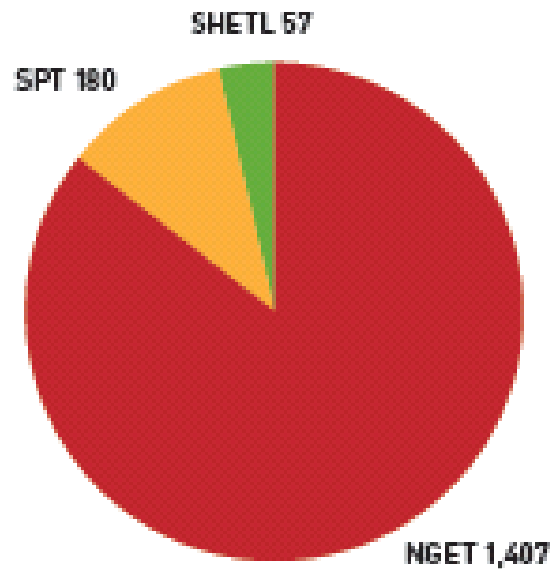
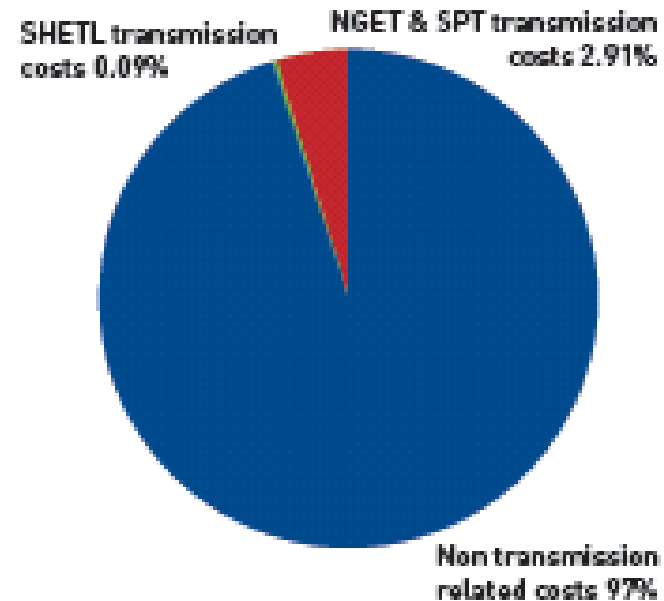


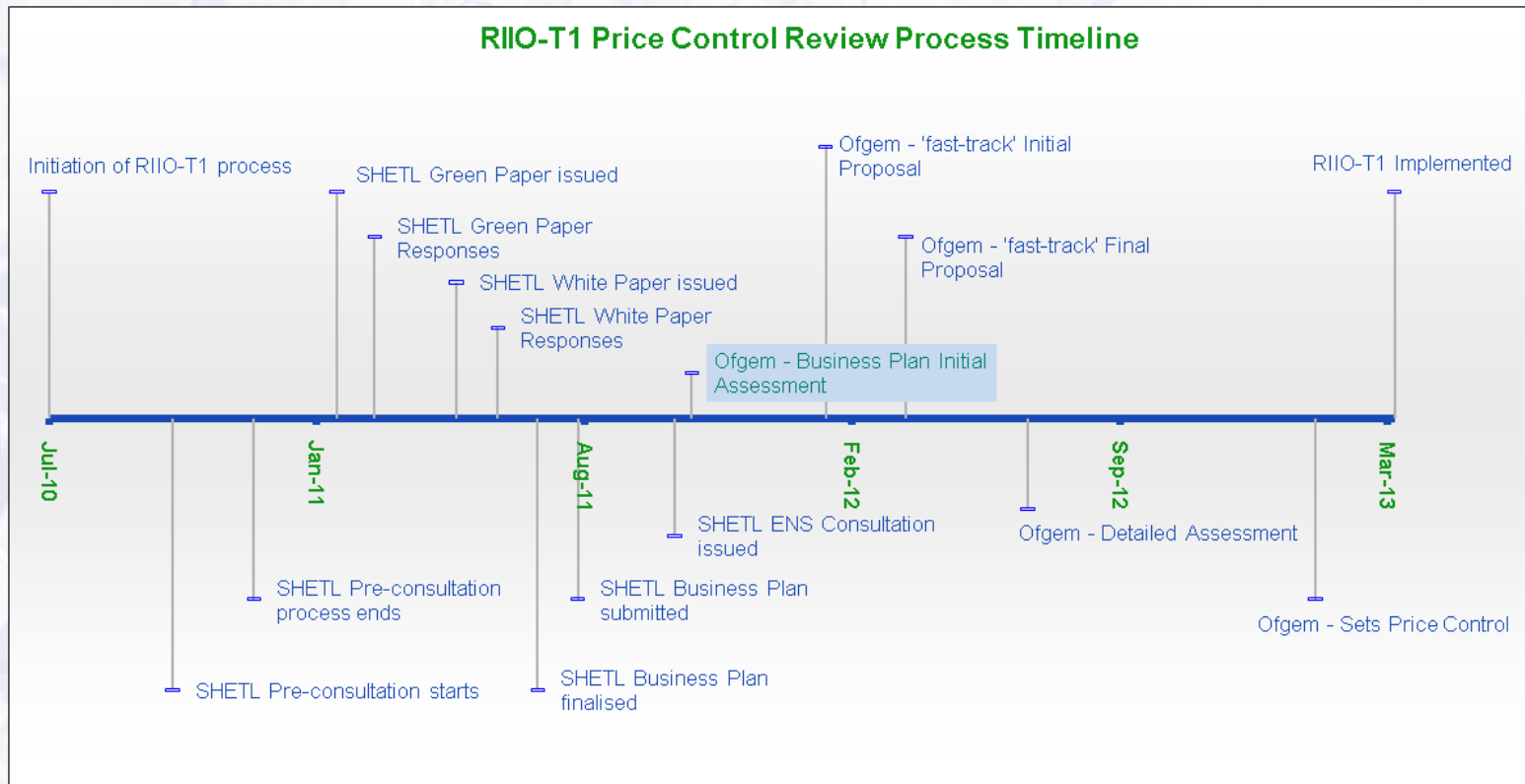
Figure 7.2: Transmission costs as a percentage of customers' bills



Currently, we estimate that our annual revenue allowances equates to, on average, 38p per annum for a domestic customer.

In our Business Plan, we forecast that by 2021, for our base case, this will increase to £3.05 per annum for an average domestic customer.

RIIO-T1 Price Control Review Process Timeline



Publish Addendum to our Business Plan in January 2012

Ofgem decision on Fast Tracking on Initial Proposals

"Our Contract with you"

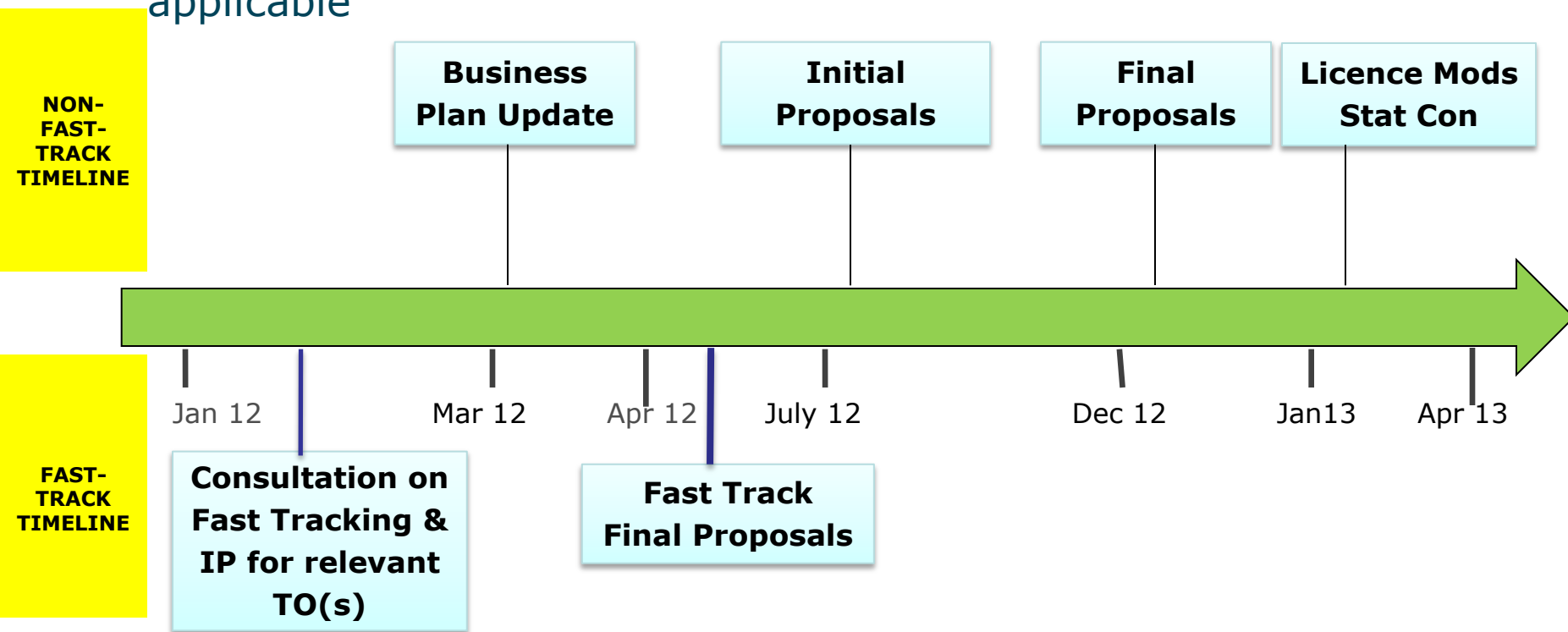
Resubmit our Business Plan

Session 4: Next Steps

Grant McEachran
Head of RIIO-T1
Smarter Grids & Governance: Transmission

RIIO-T1: Next steps

- We welcome the work the TOs have taken forward since the submission of their business plan
- This will be rewarded through proportionate treatment where applicable





Promoting choice and value
for all gas and electricity customers