

Press Release

Monday 23rd January

OFGEM CONSULTS ON SIGNIFICANT UPGRADE OF SCOTLAND'S HIGH VOLTAGE NETWORK

- **Over £7bn earmarked for Scotland's high voltage network by 2021, an integral part of Ofgem's re-wiring of Britain project to replace ageing infrastructure**
- **'Fast-tracking' of SP Transmission Ltd (SPTL) and Scottish Hydro Electric Transmission Ltd (SHTL) cuts red tape and enables a focus on delivering efficient services for consumers**
- **Boost for both security of supply prospects and to assist achieving renewable targets**
- **Over 1,500 jobs are estimated to be created as a result of infrastructure upgrades**

Ofgem is today consulting on proposals which include £2.9bn of investment with up to a further £4.7bn available over the course of the price control period (April 1 2013 – 2021). The investment is part of Ofgem's decision for SP Transmission Ltd (SPTL) and Scottish Hydro Electric Transmission Ltd (SHTL) to be the first companies fast-tracked under the new RIIO price control framework.

Alistair Buchanan, Chief Executive Officer at Ofgem stated that: "Today is a very significant moment for three reasons. Firstly, it forms a key part of implementing the £200bn investment identified in Project Discovery to protect our security of supply. Secondly, the upgraded network will greatly assist connections to renewable generators. Finally, our brand new RIIO model to setting price controls shows how we are cutting red tape."

Today's announcement provides good value for consumers, delivering essential upgrades to Scotland's transmission network at the lowest cost to consumers. Ofgem estimates the cost to consumers' bills is 35 pence a year over the eight-year period of the price control, 2013 – 2021.

The Senior Partner in charge of the RIIO price control process, Hannah Nixon, commented: "Both companies have embraced the new RIIO process and understood its importance in addressing the question of how best to meet future energy demands at the lowest cost to consumers.

"Their business plans provide good evidence of how the companies will deliver significant benefits to consumers through greater efficiency, enhanced consumer engagement and investment. The fast-tracked companies can now benefit from the swiftness of the process and concentrate on delivering efficient network improvements for consumers."

Hannah Nixon also stated that: "Last year we agreed that consideration of transmission investment in England and Wales by National Grid would be handled in the Spring and Summer of 2012. We are pleased to confirm that National Grid - which has presented business plans worth around £30 billion - has continued to engage positively with both stakeholders and Ofgem."

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 over £30 billion of investment needed to meet the unprecedented challenges they will face during the next decade, while providing value for money for consumers.

Next Steps

2. Ofgem will publish Initial Proposals for reaching early settlement of their price controls with SPTL and SHETL setting out the details of the price control for each company on 6 February. These will be open for consultation until 19 March and we will publish our Final Proposals in April 2012.

There are some areas where both companies need to continue to improve and where we are looking for them to commit to undertaking further work. The main area is their approach to setting overarching environmental strategies to deliver improved environmental performance at good value to consumers over RIIO-T1 and in the long term.

The non-fast-tracked companies, NGG and NGET, will be required to submit revised plans by 5 March 2012. Ofgem will consult on Initial Proposals in July 2012, followed by final proposals in December.

The price control for all transmission companies will come into effect on 1 April 2013.

RIIO Timetable

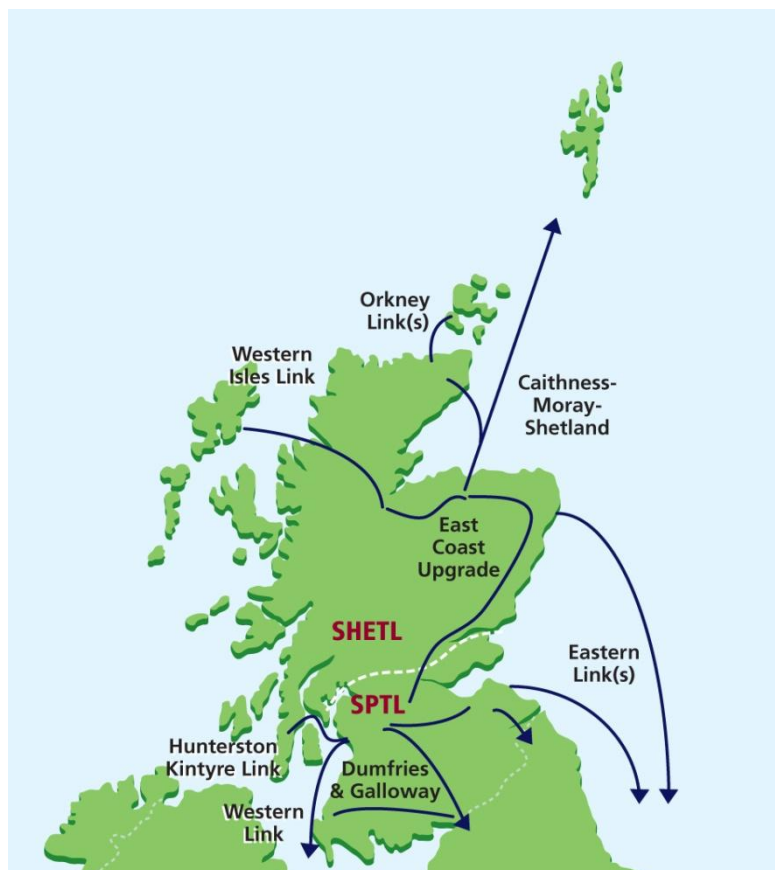
3. This is the first price control to be conducted under the new RIIO framework.

Price controls are simultaneously being set for the gas distribution networks (RIIO GD1). We have received business plans from the gas distribution networks and will publish our initial assessment of the business plans on 1 March 2012. These are due to come into effect on 1 April 2013.

The price control for electricity distribution companies (RIIO ED1) will be launched in February. These are due to come into effect on 1 April 2015.

4. **Indicative map of major high voltage projects proposed by SP and SHETL within 2013-2021**

Further details of the proposed projects can be found in the business plans for each company, which are published on their websites.



5. Cost of Capital

The table below summarises the key financial parameters proposed by SPTL and SHETL in their business plans.

Cost of Capital	SPTL	SHETL
Cost of equity allowance (post tax real)	7%	7%
Notional gearing	55%	55%
Cost of debt allowance (pre-tax real)	Indexed using 10 year simple trailing average	Indexed with bespoke weightings tracking Totex profile

For further press information contact:

Mark Wiltsher 020 7901 7006/07879 602 838