





PCRF





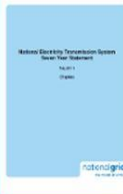

29th May 2012



The UK energy landscape is changing

Sustainability		Existing power station closures ~25% of total capacity by 2020	
Affordability			
Security of supply		Gas from UK sources ~25% of total supplies by 2020	

Our business plans are robust to a wide range of outcomes through the application of a suite of uncertainty mechanisms

	UK Future Energy Scenarios <ul style="list-style-type: none"> ■ Energy focus ■ 40 year outlook ■ Scenario based 		Offshore Development Information Statement (ODIS) <ul style="list-style-type: none"> ■ Electricity focus ■ 20 year outlook ■ Scenario based 		Ten Year Statement (TYS) <ul style="list-style-type: none"> ■ Gas focus ■ 10 year outlook ■ 'Best view' based
	Operating the Electricity Networks in 2020 (GO2020) <ul style="list-style-type: none"> ■ Electricity focus ■ 8 year outlook ■ Scenario based 		Seven Year Statement (SYS) <ul style="list-style-type: none"> ■ Electricity focus ■ 7 year outlook ■ Contracted background based 		Transmission Networks Quarterly Connections Update (TNQCU) <ul style="list-style-type: none"> ■ Electricity focus ■ Contracted background based

Stakeholders help us shape our future scenarios

Innovation is essential to efficient delivery

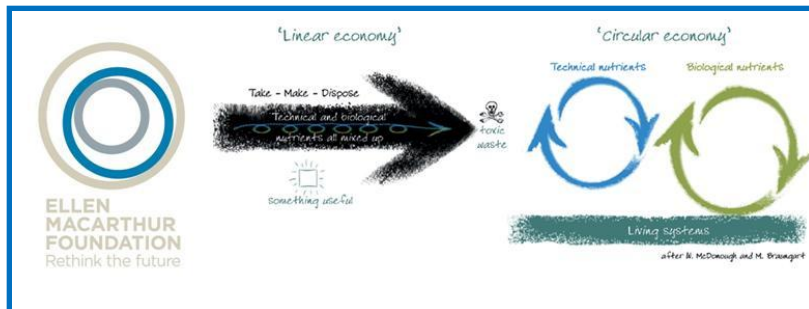
HVDC

Innovative asset management

Pylon competition



Environmental initiatives



Reduced gas venting through:

- Recompression
- Flaring
- Absorbed Natural Gas technology

Stakeholders were supportive of our plans and we have reflected their views

Talking Networks

■ LISTEN ■ DISCUSS ■ ACT

NGET plan changes	Requested by Ofgem	Requested by stakeholders
Updated to reflect Gone green 2011 scenario	✓	✓
Aligned our 11/12 & 12/13 forecast to reflect actual expenditure & latest forecast	✓	
Developed our stakeholder annex		✓
Created a new outputs annex	✓	✓
Developed our innovation strategy	✓	✓
Developed the detail within the 'detailed plan'	✓	
Further justified our finance proposals	✓	
Further explained the proposed Uncertainty Mechanisms		✓
Provided more information on charging		✓
Provided more information on targeted N-1		✓
Developed the network development policy	✓	✓
Created a European Context annex	✓	
Willingness to pay study on undergrounding	✓	✓
Developed an IS strategy annex and included detail on all IS investments	✓	

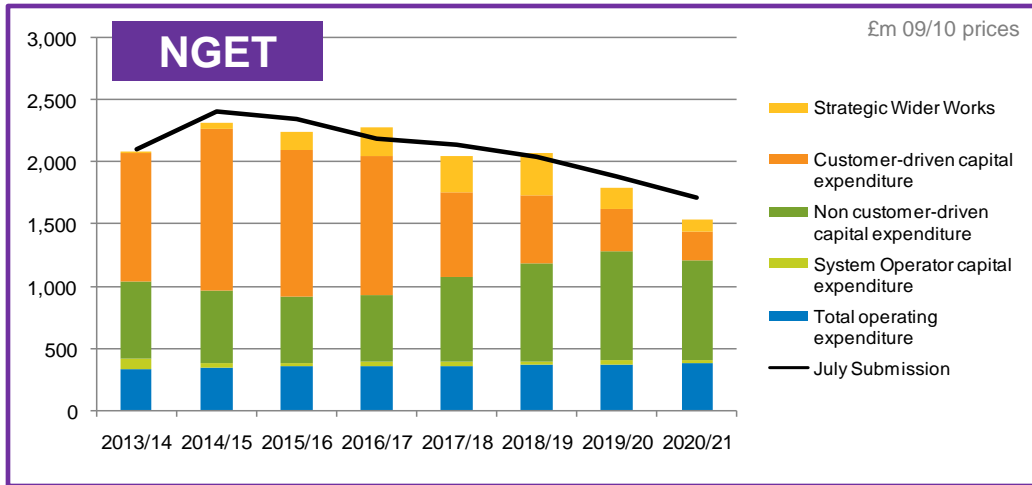
Stakeholders were supportive of our plans and we have reflected their views

Talking Networks

■ LISTEN ■ DISCUSS ■ ACT

NGGT plan changes	Requested by Ofgem	Requested by stakeholders
Provided more information on compressor strategy & interaction with IED, refined our unit costs	✓	
Further developed connections and capacity	✓	✓
Developed our stakeholder annex		✓
Created a new outputs annex	✓	✓
Developed our innovation strategy	✓	✓
Developed the detail within the 'detailed plan'	✓	
Further justified our finance proposals	✓	
Further explained the proposed Uncertainty Mechanisms		✓
Provided more information on charging		✓
Provided more information on network flexibility	✓	✓
Created a European Context annex	✓	
Developed an IS strategy annex and included detail on all IS investments	✓	

Business plan expenditure: NGET & NGGT



Capex

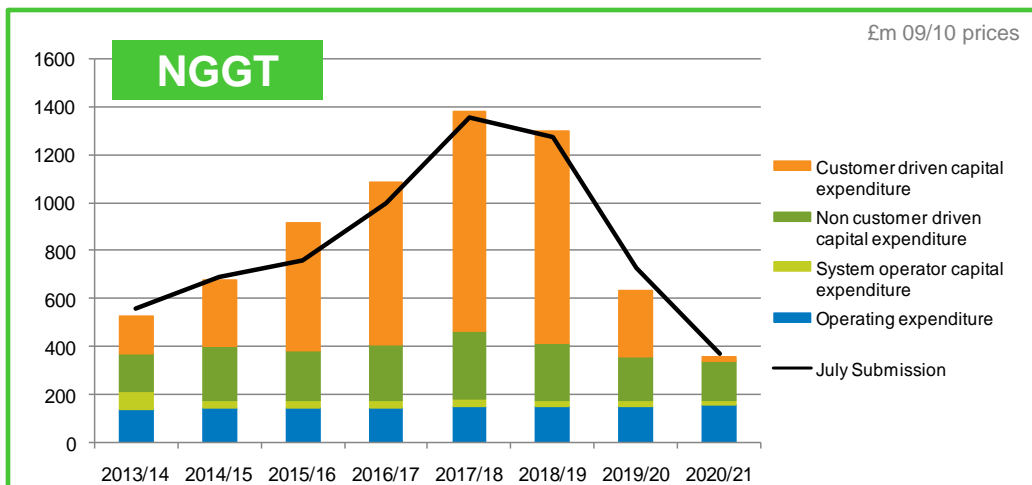
£13.6bn

Opex

£2.8bn

Totex

£16.4bn



Capex

£5.7bn

Opex

£1.2bn

Totex

£6.9bn

Specific questions raised by Ofgem



Balance of funding between ex ante allowances and uncertainty mechanisms - NGET

- A high proportion of expected investment is funded by ex ante allowances
 - Provides strong performance incentives on NGET
- Uncertainty mechanisms flex allowances up or down in response to changes in circumstances
- The unit costs used by the UMs are fixed rather than determined within period

	NGET	SPTL	SHETL
Proportion of best view load related capex funded by ex ante allowances	83%	74%	17%
Proportion of baseline load related capex in first 3 years	55%	84%	66%

Is the financial package value for money for consumers?

- A- rating required to finance the business efficiently to fund investment in the network
- Earnings growth required to raise equity
- Reviewed the financeability of alternative options in developing the package
 - Gearing
 - Transitional measures
 - Totex capitalisation rates
- 7.5% reflects risk
- Fine balance achieved to finance the business

Financial package proposal	Electricity	Gas
Cost of equity	7.5%	7.5%
Cost of debt	Ofgem index	Ofgem index
Gearing	55%	55%
Asset Life transition	2 periods	N/A
Capitalisation rate - baseline	86% (natural)	57%
Capitalisation rate – capex UMs	100%	90%

Aligning the gas connections and capacity processes

- Drivers for change:
 - Industry calls for process alignment
 - Alignment of infrastructure delivery timescales with Planning Act
- Proposals:
 - Earlier mandatory bi-lateral engagement
 - Phased user commitment avoids need for full commitment at start of process (lowering potential barrier to entry)
 - Alignment of user/NG processes (incl. planning applications)
 - Shorter obligated timescales from full user commitment
 - Delivery incentive on Construction activity

Gas Network Flexibility

- UKCS decline and increasing LNG importation, Storage and Interconnection is changing NTS supply dynamics
- Increased wind generation will increase demand variability from CCGTs & resultant supply variability
- NTS cannot meet all future requirements (including domestic demand) without action:
 - We will consider commercial rules and operational tools
 - In some cases, investment in assets is the only option
- Ex ante funding requested for investment to meet existing 1 in 20 demand obligations (~£55m)
- Uncertainty mechanism proposed, including stakeholder input, for other requirements