

Press Release

Monday 17 December

OFGEM ANNOUNCES MAJOR INVESTMENT TO UPGRADE BRITAIN'S GAS AND ELECTRICITY NETWORKS

- £24.2bn earmarked to upgrade and renew Britain's electricity and gas networks
- Ofgem cuts over £7bn from network companies' original spending plans to ensure value for money for consumers
- Ofgem continues to deliver a stable regulatory environment that successfully secures investment in Britain's vital infrastructure at a fair price to consumers

Ofgem has today announced up to £24.2bn to deliver new and upgraded infrastructure for Britain's gas and electricity networks. Of this, £4.5bn will only be made available over the course of the new, longer price control period of eight years (1 April 2013 – 2021) if companies are able to justify this expenditure. The cost of running and maintaining Britain's energy networks up to 2021 brings the total package to £38.2bn.

The proposals earmark up to £15.5bn to upgrade the high voltage electricity transmission network in England and Wales and high pressure gas transmission network across Britain, both operated by National Grid. This investment will help connect new sources of energy generation and ensure the continued reliable transportation of gas and electricity to homes and businesses. Major projects include the building of a sub-sea link to connect Scotland with England and Wales.

Ofgem has improved funding arrangements to mitigate the visual impact of new and existing infrastructure. There will be £500m initially available for transmission companies in relation to existing infrastructure in areas of natural beauty. For new infrastructure, approximately £470m will be available to enable undergrounding.

Today's proposals include £8.7bn of investment to help ensure Britain's low pressure gas networks, which deliver gas to homes and businesses, remain safe and reliable. Included in the package are strict targets for network companies to carry out carbon monoxide awareness initiatives. There will also be funding to enable the connection of around 80,000 fuel poor households to the gas grid, helping them benefit from cheaper fuel.

Ofgem Chairman, Lord Mogg said: "Ofgem's new and innovative price control – RIIO – delivers a sound regulatory environment that protects consumers by attracting the energy infrastructure investment that Britain needs at a fair price. This provides a framework of strong incentives and penalties to stimulate the innovative and efficient operations of Britain's energy companies."

As Ofgem's Project Discovery in 2009 showed, Britain faces an unprecedented need to invest to replace ageing infrastructure, meet environmental targets and deliver secure supplies. The increased investment needed to secure the robustness of the energy networks will have an impact on household bills. Including the proposals of the Scottish transmission companies and companies' operating costs, it is estimated that annual household bills will increase by an average of £12 each year. This amount is not cumulative – for example at the end of the price control in 2021 bills will be around £15.10 higher than today.

-Ends-

Notes to editors

1. **RIIO** (Revenue=Incentives+Innovation+Outputs) is designed to incentivise companies to meet the unprecedented challenges they will face during the next decade: to find over £30 billion of investment needed to meet environmental targets and secure energy supplies, while delivering long-term value for money for consumers.

2. **RIIO Breakdown by Individual Company**

2009/10 prices (£bn)	Companies' First Business Plan	Ofgem Initial Proposals	Ofgem Final Proposals	% Diff. FP v BP
NGET TO (total expenditure)	16.2	13.9	14.5	-10%
NGET SO (total expenditure)	1.0	0.8	0.8	-18%
NGGT TO (total expenditure)	6.8	4.9	4.9	-28%
NGGT SO (total expenditure)	0.7	0.6	0.6	-12%
NGGD (totex)	8.7	6.2	6.9	-20%
NGN (totex)	2.0	1.6	1.7	-17%
SGN (totex)	4.9	3.6	4.1	-16%
WWU (totex)	2.1	1.5	1.7	-20%
Investment (Capex + Repex only)	29.4	22.7	24.2	-18%
Total Expenditure¹	45.4	36.1	38.2	-16%

¹ – Including £3bn uncontrollable costs for the GDNs (NTS exit charges not included)

The RIIO-T1 Final Proposal Overview document can be found at:

http://www.ofgem.gov.uk/Networks/Trans/PriceControls/RIIO-T1/ConRes/Documents1/1_RIIOT1_FP_overview_dec12.pdf

The RIIO-GD1 Final Proposal Overview document can be found at:

http://www.ofgem.gov.uk/Networks/GasDistr/RIIO-GD1/ConRes/Documents1/1_RIIOGD1_FP_overview_dec12.pdf

3. **Consumer Bill Impact**

Companies	Change in consumer bills (in 2012 prices)								
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	Average
SPTL and SHETPLC	£1.6	£2.8	£3.8	£3.8	£4.1	£4.4	£4.6	£4.9	£3.7
NGET	-£0.9	£0.6	£1.7	£2.7	£2.9	£4.1	£3.7	£3.6	£2.3
NGGT	-£1.6	-£1.8	-£1.7	-£1.1	-£0.3	-£0.6	-£0.1	£0.4	-£0.9
Gas distribution networks	£9.4	£5.7	£7.4	£6.3	£6.6	£6.6	£5.9	£6.3	£6.8
<i>Excluding fast-track</i>	<i>£6.9</i>	<i>£4.5</i>	<i>£7.4</i>	<i>£7.8</i>	<i>£9.2</i>	<i>£10.2</i>	<i>£9.5</i>	<i>£10.2</i>	<i>£8.2</i>
Total impact	£8.5	£7.3	£11.2	£11.6	£13.3	£14.5	£14.2	£15.1	£12.0

* Bill impact is quoted in current (2012) prices

Half of the total average bill impact, £6.20, is related to tax changes affecting the gas distribution network companies that are outside Ofgem's control.

The cost of the price controls is not cumulative, this is because investment and costs vary year on year and between the different companies, depending on a number of factors including what is being built that year.

4. Financial Parameters

	RIIO-T1		RIIO-GD1
	NGET	NGGT	
Cost of Debt (real pre-tax)	iBoxx 10-year trailing average index (2.9% in 2013-14)		
Cost of equity (real post-tax)	7.0%	6.8%	6.7%
Notional gearing	60%	62.5%	65%
"Vanilla" weighted average cost of capital	4.55%	4.4%	4.2%

5. Ofgem is the Office of the Gas and Electricity Markets, which supports the Gas and Electricity Markets Authority, the regulator of the gas and electricity industries in Great Britain. The Authority's powers and duties are largely provided for in statute, principally the Gas Act 1986, the Electricity Act 1989, the Utilities Act 2000, the Competition Act 1998, the Enterprise Act 2002, the Energy Act 2004 as well as arising from directly effective European Community legislation.

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