

RIIO-ED1 Slow-Track Final Determinations

28 November 2014

Maxine Frerk
Senior Partner, Distribution

ofgem

RIIO Framework for Network Regulation

- RIIO framework objectives
 - Drive real benefits for consumers by providing companies with strong incentives to meet the challenges of delivering outputs efficiently
 - Provide a transparent and predictable framework that rewards timely delivery and encourages innovation

- RIIO so far
 - The fast-track process
 - Increased and diverse stakeholder engagement
 - Cost savings to consumers

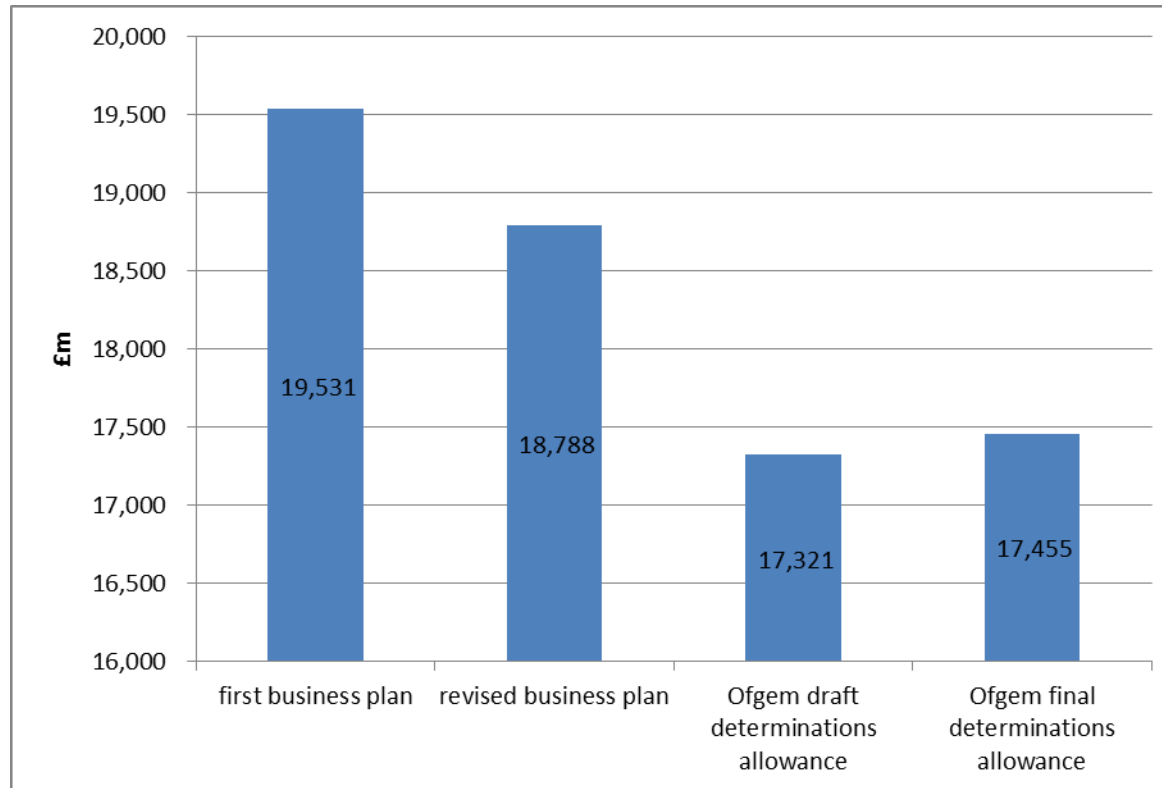
- Going forward
 - Annual iteration process
 - Reporting/monitoring
 - Investors continue to play important role

RIIO-ED1 Final Determinations vs Draft Determinations

- Cost of capital unchanged from Draft Determinations (DD)
 - Cost of equity 6% and cost of debt iBoxx 10-20yr trombone index
- Totex allowance – minimal difference in overall level from DD
 - Some tweaks at individual DNO level
- No indexation to RPE adjustments – figures updated for more recent data
 - DNOs will recover ex ante
- Review of Smart Grids cost adjustments – adjustment reduced since DD
 - Recognised more embedded benefits on the basis of additional evidence
- Pension reasonableness review – coincides with RIIO-ED1 FD
 - £110m increase to revenue requirement – pass through cost, no impact to DNOs

New investment – better service – lower overall cost

RIIO-ED1 Totex allowance



Fast-track submitted to slow-track final determinations

RIIO-ED1 Slow-Track Final Determinations – Totex

(£m 2012-2013 prices)	First Business Plan	Revised Business Plan	Ofgem DD Allowance	Ofgem FD Allowance	% Diff. (FD vs. DD)
ENWL	1,900	1,876	1,794	1,825	+1.7%
NPg	3,224	3,173*	2,928	2,959	+1.1%
UKPN	6,726	6,617	5,995	6,029	+0.6%
SPEN	3,960	3,487	3,206	3,186	-0.6%
SSEPD	3,720	3,635	3,398	3,456	+1.7%
Total	19,531	18,788	17,321	17,455	0.8%

* We have excluded DNOs' submitted costs of Network Rail's electrification programme and of remediating link boxes that will be covered by re-openers.

RIIO-ED1 Slow-Track Final Determinations – Financial Parameters

	DPCR5 (all DNOs)	WPD (4 DNOs) Fast Track	DNO Slow Track Proposals	Ofgem Slow Track Draft Determinations	Ofgem Slow Track Final Determinations
Cost of equity (real post-tax)	6.7%	6.4%	6.0% - 6.7%	6.0%	6.0%
Cost of debt (real pre-tax)	3.6%	iBoxx 10yr trailing average index	Various but all noted issues w/ 10yr trailing average	iBoxx 10yr-20yr trombone index	iBoxx 10yr-20yr trombone index
Notional gearing	65%	65%	65%	65%	65%
Asset lives transition	N/A	8 years	8 years	8 years	8 years
Totex capitalisation rate	~72%*	80%	68% - 80%	As per DNOs	As per DNOs^
Real RAV growth	17% avg	24%	6% - 11%	8%	8%
Real revenue change †	+33% avg	-7%	-26% -1%	-12%	-12%

* 85% totex + 0% non-operational & business support

† Relative to end of previous price control

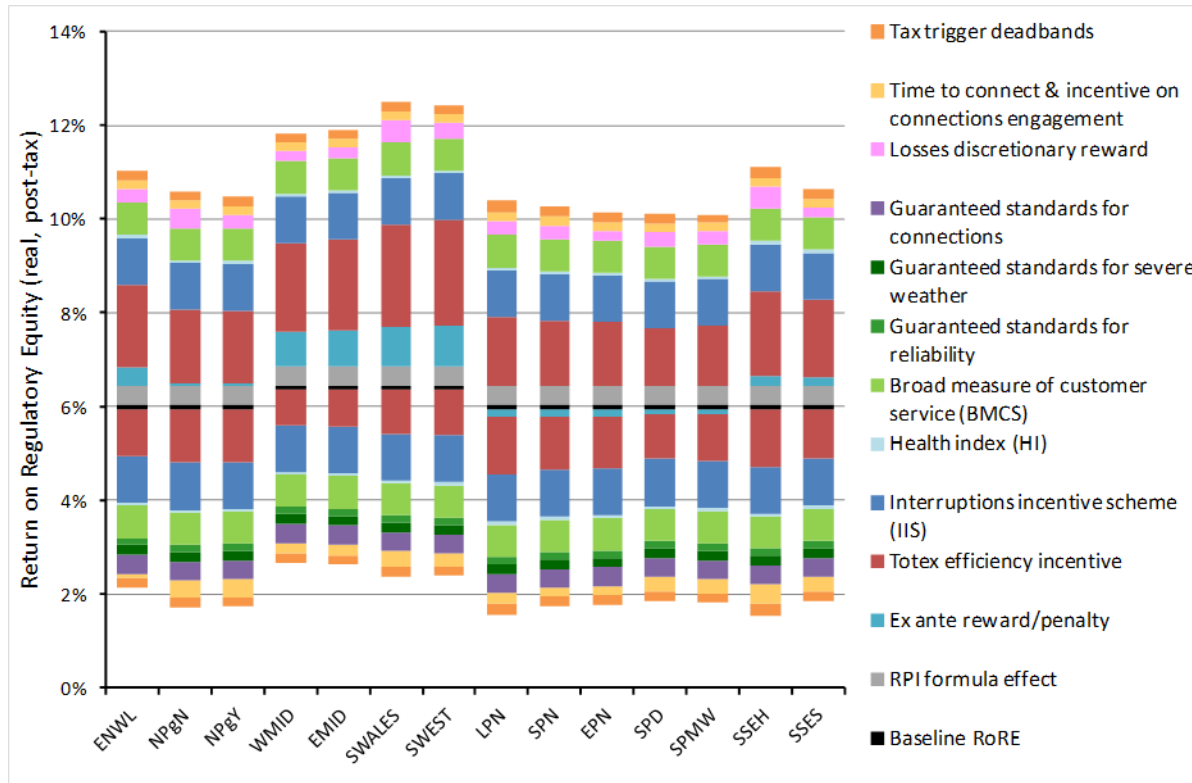
^ ENWL changed to 68% and SSEH changed to 62% for 1st 4 years from 70%

RIIO – Financeability

- Financeability duty – must “have regard to the need to secure that licence holders are able to finance the activities which are the subject of obligations on them”
- In consumers’ interest that efficient network companies can secure finance in time and at reasonable cost
- Enhanced analysis on actual cost of debt and financial resilience beyond rating agency metrics
- Capital structure remains the responsibility of network companies’ management

Regulatory commitment: transparency, predictability, objectivity

Estimated RORE ranges in RIIO-ED1 (includes WPD)



Well performing company has the potential to achieve double digit return

Contact

For further information please contact:

Brenda Tanis

Head of Investor Relations

020 7901 7009

brenda.tanis@ofgem.gov.uk

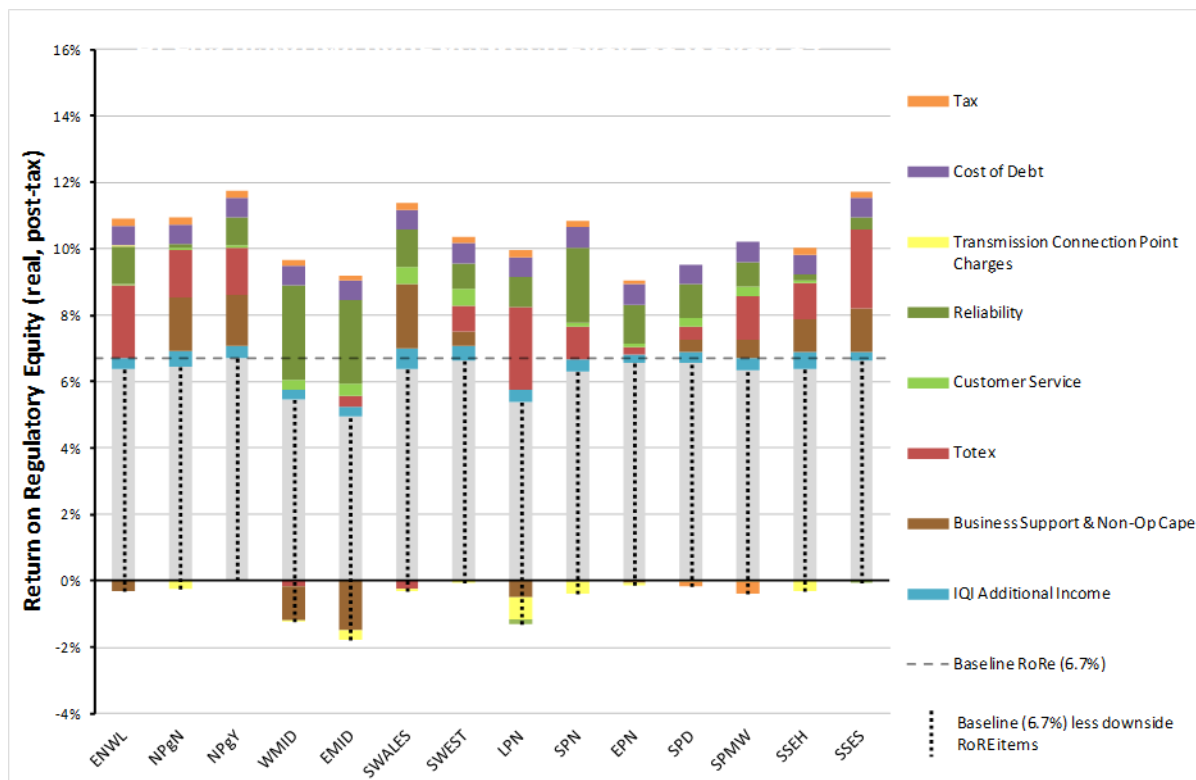
Harry Rippon

Investor Relations Manager

020 7901 7460

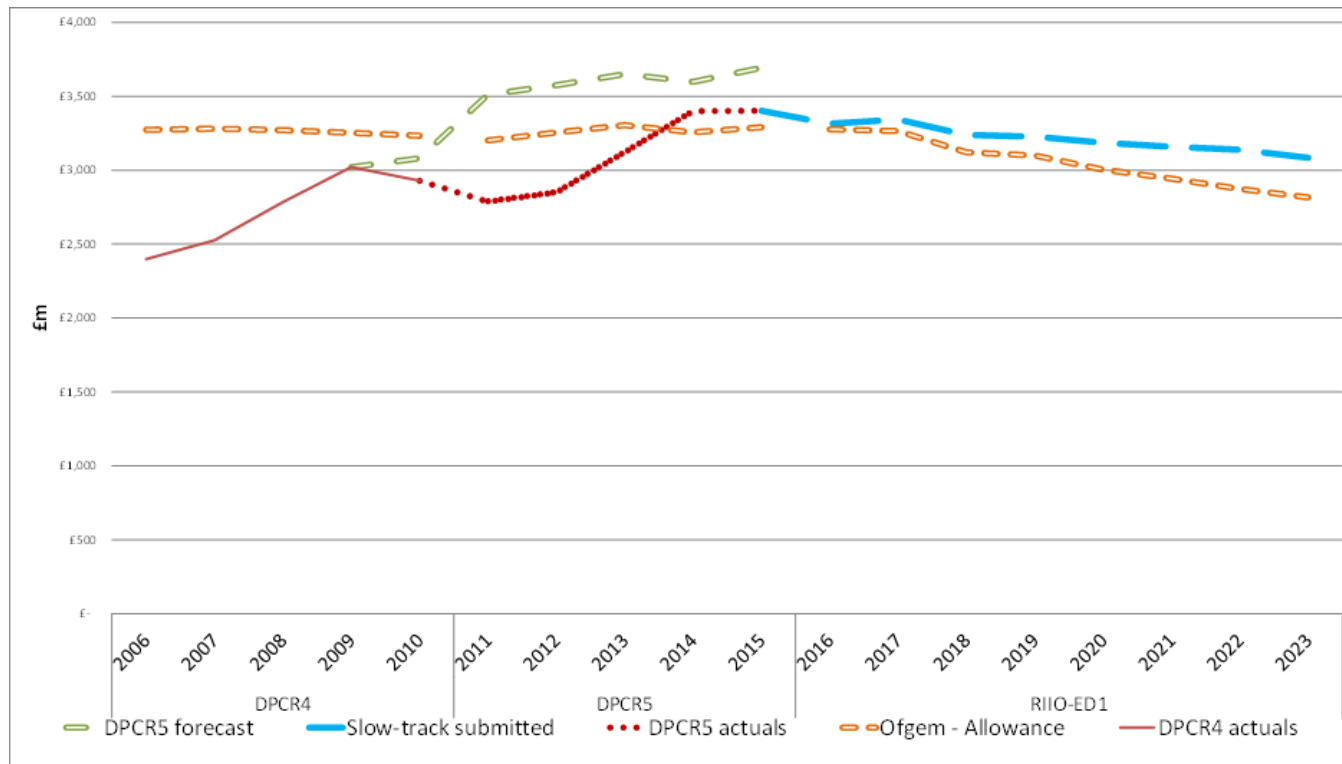
harry.rippon@ofgem.gov.uk

Annex: Historical RORE DPCR5 1st 4 years (includes WPD)



RORE liable to reduce by the end of DPCR5

Annex: Historical Costs (including WPD)



Ofgem is the Office of Gas and Electricity Markets.

Our priority is to protect and to make a positive difference for all energy consumers. We work to promote value for money, security of supply and sustainability for present and future generations. We do this through the supervision and development of markets, regulation and the delivery of government schemes.

We work effectively with, but independently of, government, the energy industry and other stakeholders. We do so within a legal framework determined by the UK government and the European Union.