



## RIIO T1 Transmission Price Control SP Transmission Successfully Fast-tracked

ScottishPower has successfully reached agreement with the energy regulator Ofgem to fund an investment plan for its transmission business, SP Transmission Limited, totalling £2.6 billion pounds over the 8-year period from 2013 to 2021 that will see the creation of up to 1,500 jobs in Scotland.

Under Ofgem's RIIO T1 regulatory price control review process, SP Transmission submitted a detailed plan outlining its investment priorities up to 2021 in order to deliver the most important upgrades to the electricity network in central and southern Scotland for more than 50 years. The company's plans are designed to help achieve European carbon reduction targets and provide a platform for further innovation. A key element of the plans is the connection of offshore and onshore wind generation in Scotland of around 11 GW - enough to power over 6 million homes.

RIIO T1 represents the most important period in Transmission infrastructure investment to have taken place in the last 6 to 7 decades. In the last 20 years SP Transmission ("SPT") has invested some £1.5 billion pounds to maintain our system at the leading edge of performance in global Transmission networks. However in the next 8-years our investors (equity and debt) and customers are being asked to support investment of £2.6 billion pounds.

We have taken care to develop an efficient business plan package with a baseline minimum investment and the flexibility to scale up through volume drivers and investment triggers. This ensures that customers pay only for investment and outputs that we undertake while also providing us with the necessary cash flows to deliver our plan, and in so doing ensure we fully support Government policy objectives and roadmaps.

The £2.6 billion investment will:

- Create up to 1,500 new jobs in the ScottishPower Transmission licence area
- Connection of offshore and onshore wind generation in Scotland of around 11 GW (enough to power over 6 million homes)
- Reduce carbon emissions by over £2 billion (equivalent to 45 million tonnes of CO<sub>2</sub>)
- Increase the export capacity from Scotland to England from 3.3 GW to at least 7GW
- Reduce constraint costs to the UK consumer by £1.7 billion
- Renew and replace over 15% of our existing substation assets
- Replace around 800 km (20%) of overhead line
- Modernise the transmission network to ensure that the excellent security of supply and reliability presently enjoyed in the SP Transmission area is maintained.



The key highlights of our agreed plan are:

### Strong Investment focus

- We have secured £2.6 billion of investment meaning that SP Transmission ("SPT") Regulatory Asset value will grow by 220% to £3.2billion.
- We have carefully calibrated our plan to mitigate the impact on our stakeholders and customers throughout Scotland and the United Kingdom.
- The outputs described above will account for a 10 pence per annum increase to the average customer's annual bill.

### Financial – Supportive Framework

- Real post tax WACC of 4.5% (recent comparisons are Transmission Rollover 4.26%, DPCR5 4.0%) including:
  - Return on Equity of 7.0% in real terms
  - Cost of debt allowances based on a 10 year trailing average of iBoxx non financials 10+ maturity series for an average of A and BBB ratings,
  - 55% gearing assumption
- Strong commitment to funding through regulatory depreciation allowances.
  - All investment prior to 1 April 2013 remains at 20 years (approx £1.4B) with
  - New investment transitioning from 20 to 45 years over 8 years on a linear basis.
- Continued indexation of revenues and the regulatory asset value at RPI
- A number of important risk mitigation measures on major infrastructure projects
- We expect to raise around £200M in new equity during RIIO T1 to support the investment programme

### Investment Plan

65% of our investment plan will allow expansion of our network to accommodate the growth of renewable generation in the south of Scotland, in order to meet UK renewable energy targets. Specifically, the funding will allow the connection of a further 2.5GW of renewable generation in our area, and close to 7GW of transmission export capacity from Scotland to England.

35% of our investment will be used to address issues with our existing network plant and circuits, a significant proportion of which was built in the 1950s – 1960s and require replacement due to their condition. This includes over £300m to replace around 40% of our high voltage overhead line conductor, originally built in the 1960's, and around £120m to replace 50% of our 1950/60's vintage air-blast and bulk oil circuit breakers, which have become less reliable and more costly to maintain.

### Next Steps

The next steps in this process are for Ofgem to consult fast-tracking for SP Transmission Limited which should conclude once the fast-track Final Proposals are published by Ofgem in April 2012.

Please also find attached links to the SP Transmission RIIO T1 website:

[http://www.spenergynetworks.co.uk/PublicInformation/stakeholder\\_riio.asp](http://www.spenergynetworks.co.uk/PublicInformation/stakeholder_riio.asp)

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	DPCR5	TPCR Rollover	RIIO-T1
<b>Cost of Debt</b>	3.6%	3.25%	3.2%
<b>Cost of Equity</b>	6.7%	7.0%	7.0%
<b>Gearing</b>	65%	60%	55%
<b>Real Vanilla WACC</b>	4.69%	4.75%	4.91%
<b>Real Post Tax WACC</b>	4.03%	4.26%	4.49%