

Impact of RIIO price control on electricity transmission charges



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31st January 2012

Introduction

- RIIO background
- Forecast revenues and impacts on charges
- Stakeholder comments and suggestions
- Next steps

RIIO: what's it about?



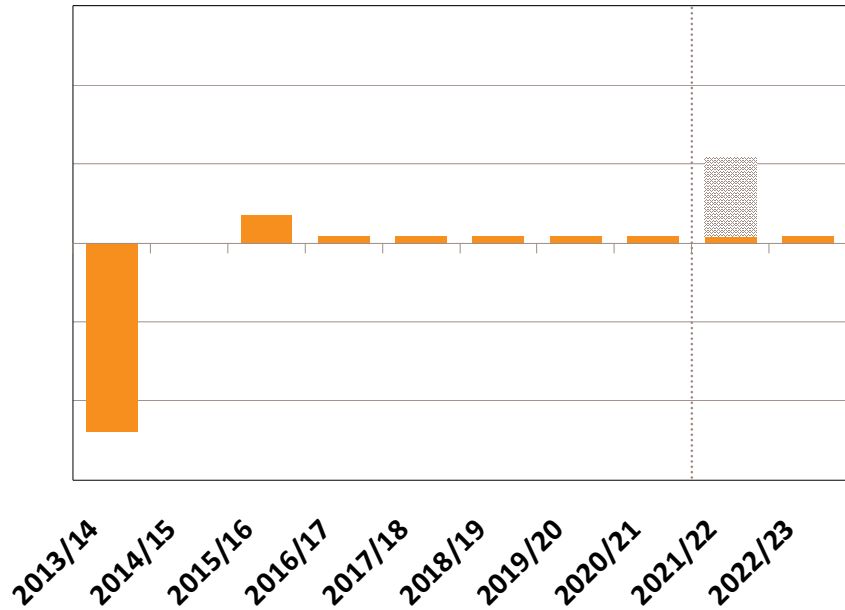
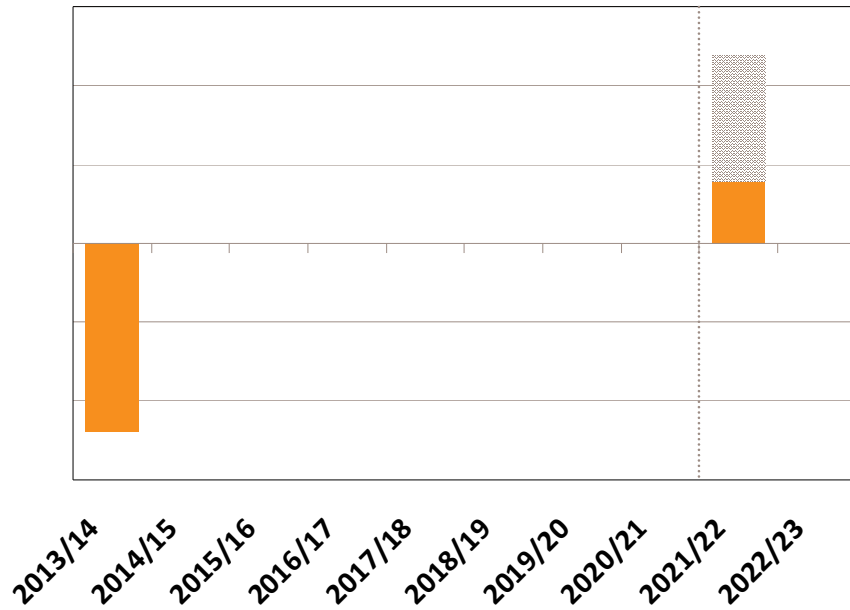
“...encourage network companies to play a full role in the delivery of a sustainable energy sector, and to do so in a way that delivers value for existing and future consumers.”

- What's new?
 - 8 year settlement
 - Efficiency Incentive with smoothed revenues
 - Customer Satisfaction Incentive
 - Greater use of Uncertainty Mechanisms

Smother revenue adjustments

RPI-X Cash Flow

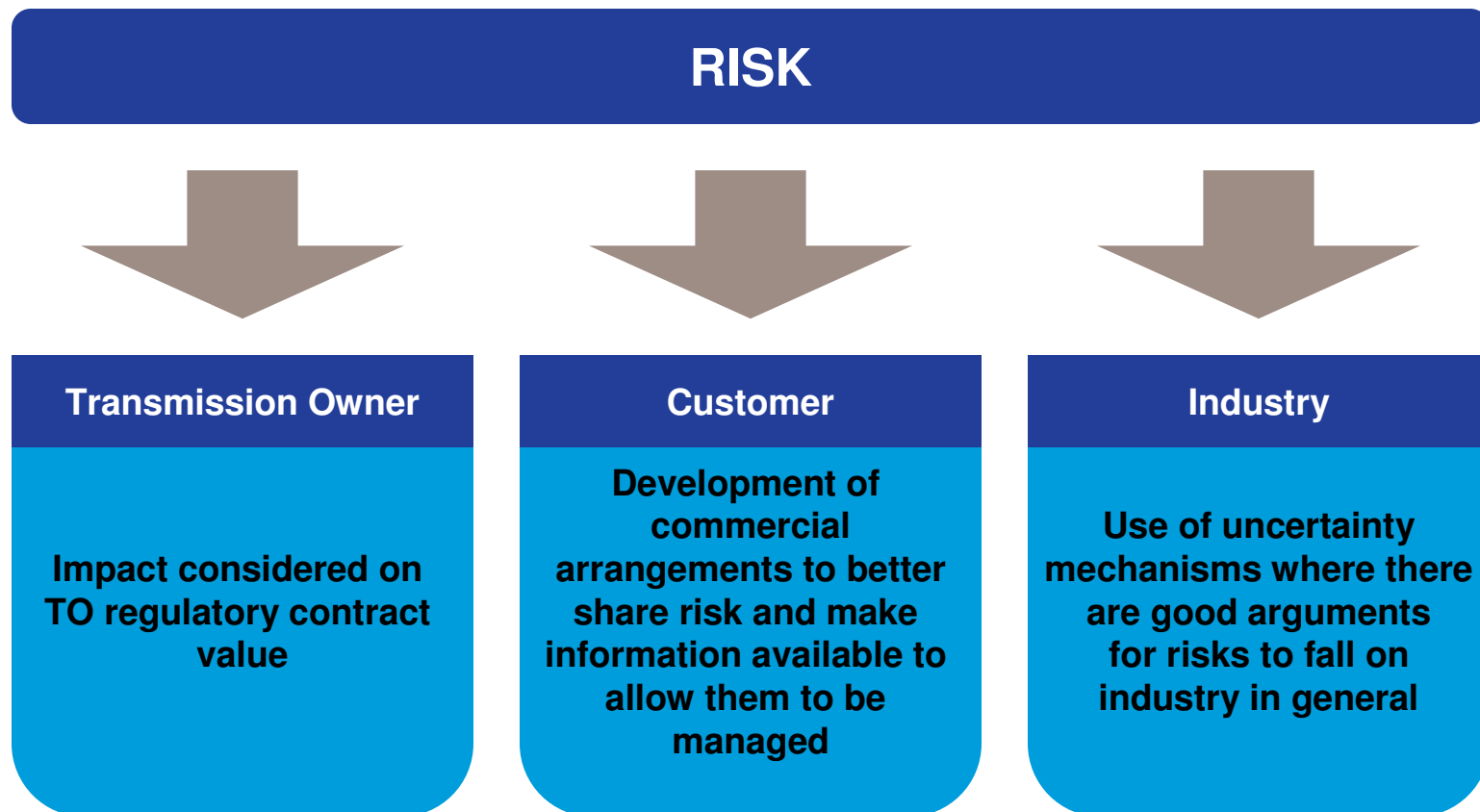
RIIO Cash Flow



■ Cash Flow RAV Entry

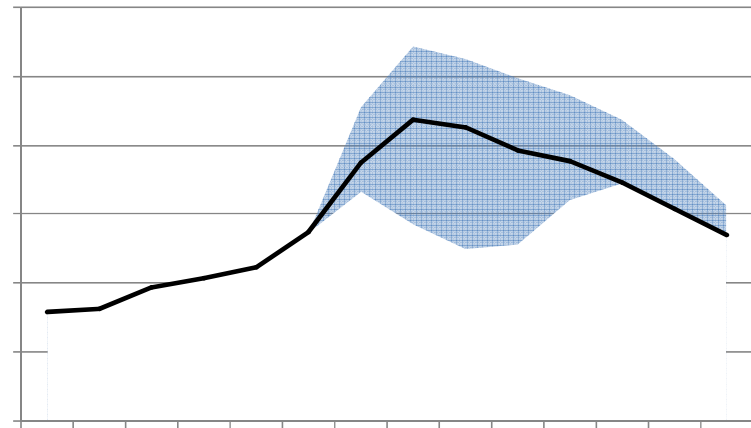
Allocation of Risk

- Risks should fall on those parties best able to manage them



What are uncertainty mechanisms?

Baseline RIIO-T1 plans are only one view of the future...



Uncertainty mechanisms:

- allow the regulatory control to adapt to an uncertain future
- ensure the RIIO-T1 package remains appropriate across a wide range of possible outcomes
- build on existing revenue drivers

Proposed Uncertainty Mechanisms

Wider Works

Undergrounding

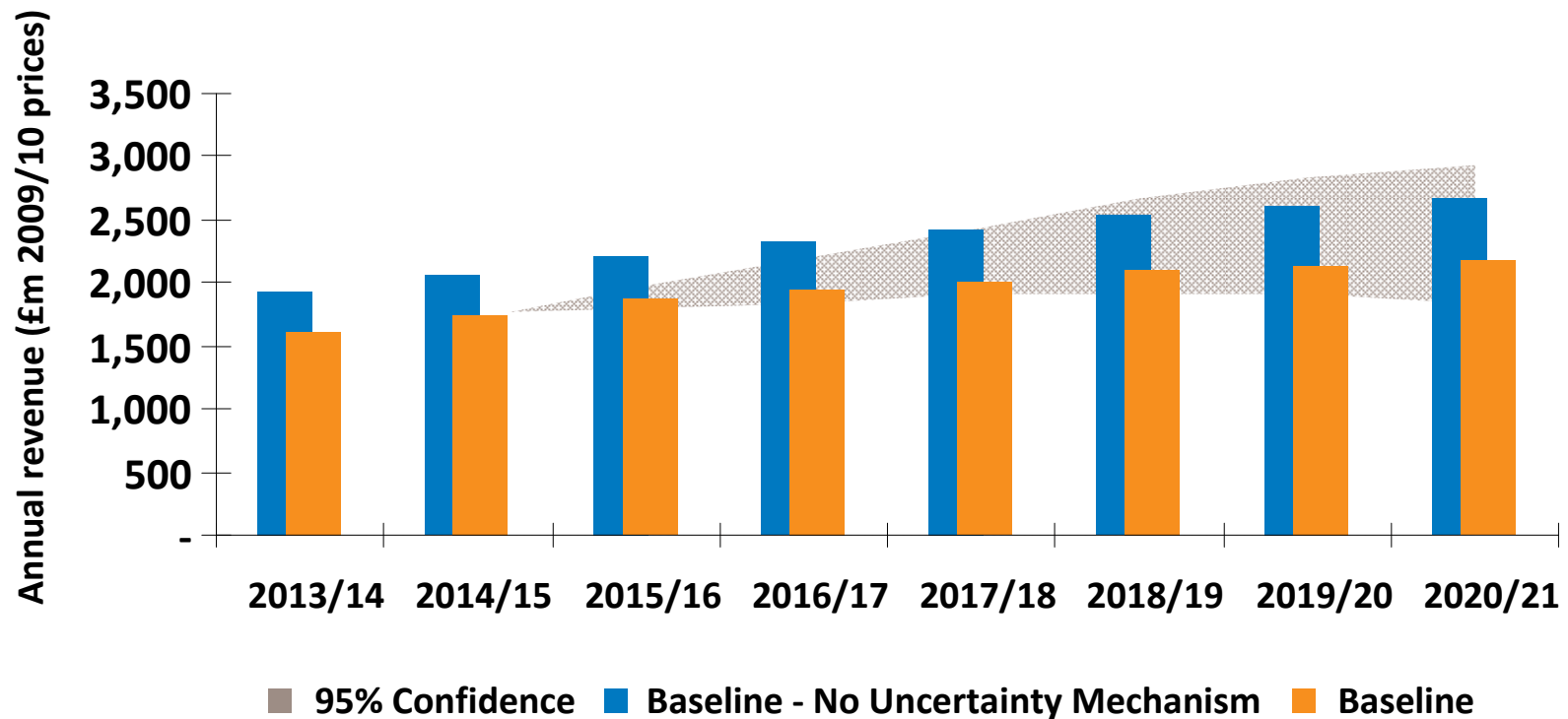
**Generation
Connections**

**Offshore
Network**

Network renewal

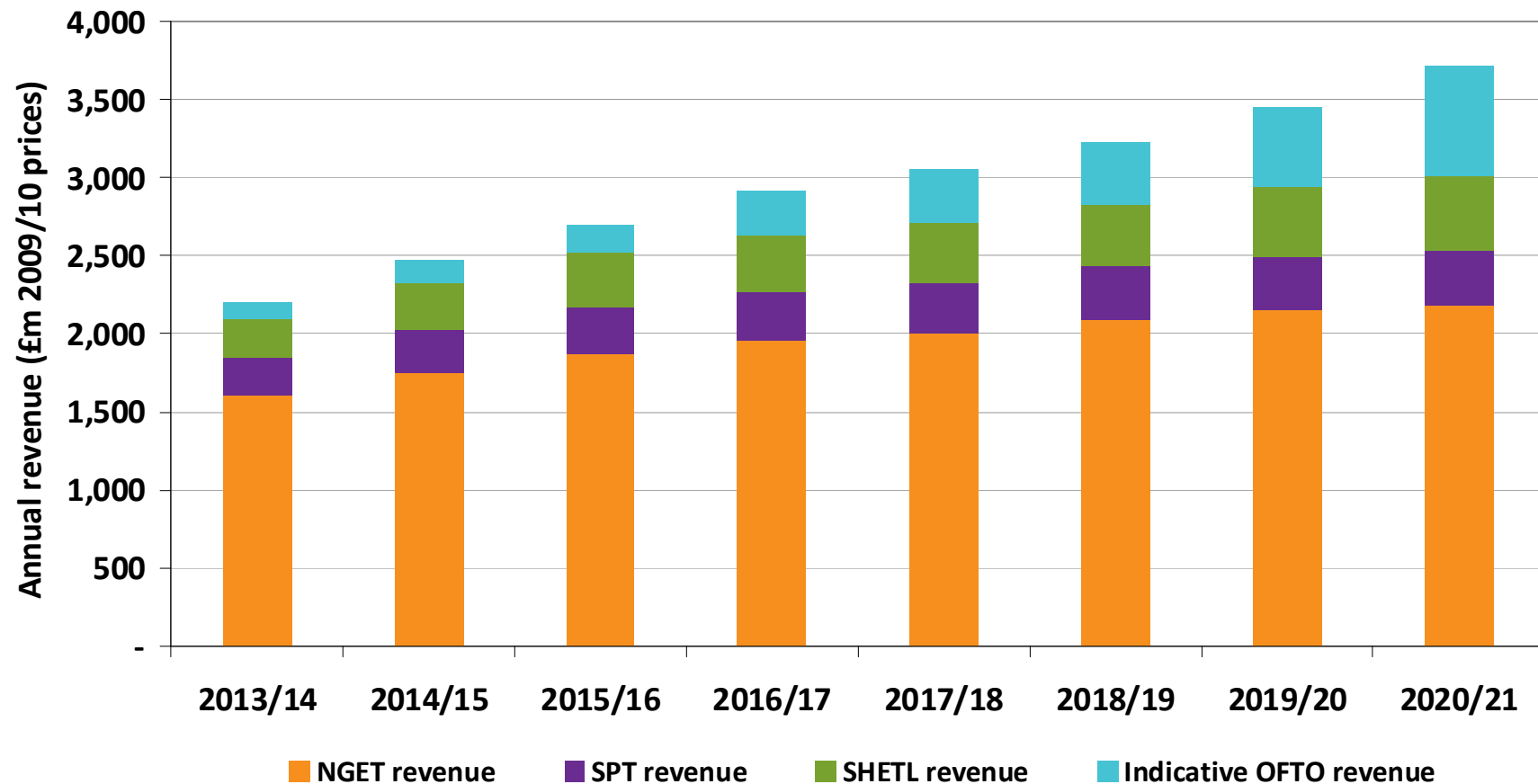
**Real Price
Effects**

NGET revenue proposals under RII0



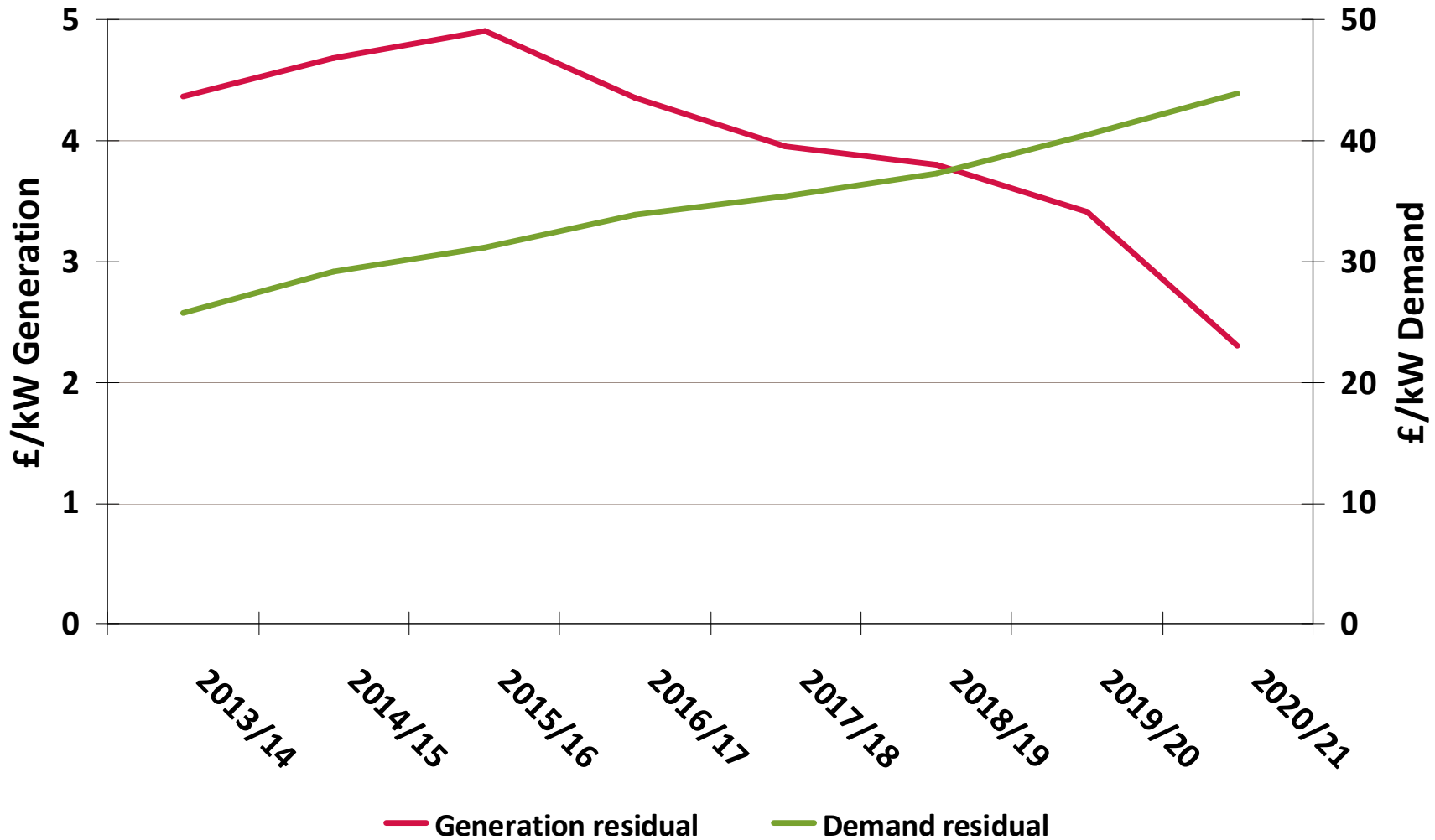
Revenue forecasts based on current National Grid projections and are subject to further refinement prior to submission in March 2012

Forecast overall transmission revenues



Notes – SHETL revenue as detailed in January 2012 submission. SPT revenues as detailed in July 2011 submission. OFTO revenues are based on Gone Green connection volumes, and Redpoint indicative OFTO connection costs.

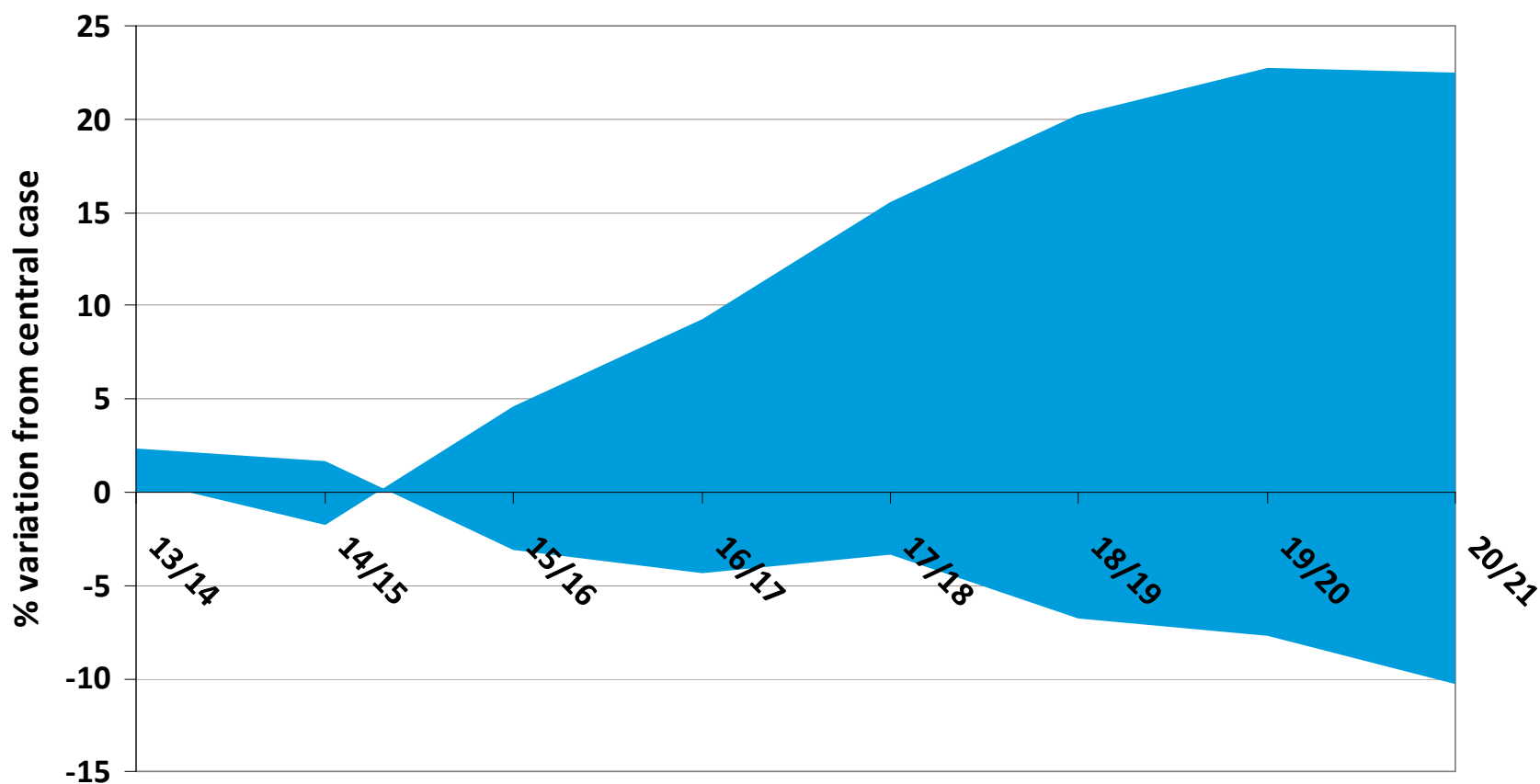
What this could mean for transmission charges



Estimated using existing TNUoS methodology and National Grid Gone Green assumptions. Figures are indicative only

Potential impact of NGET Uncertainty Mechanisms

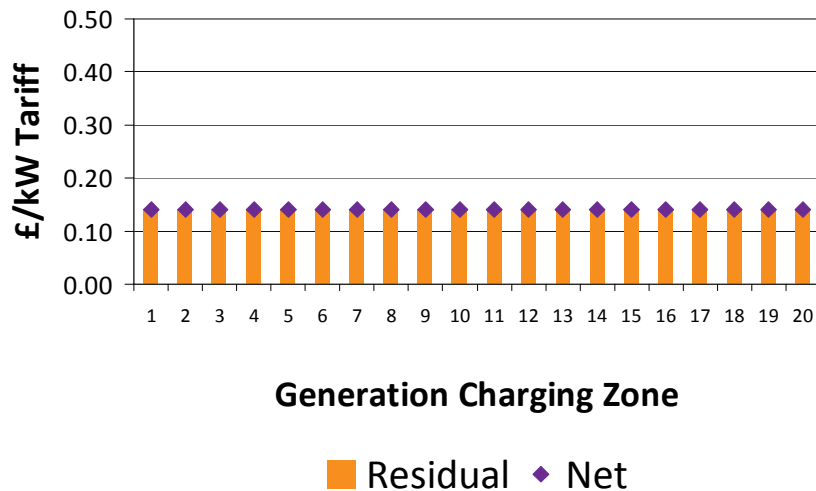
- Demand residual assuming uncertainty mechanisms cause no locational change



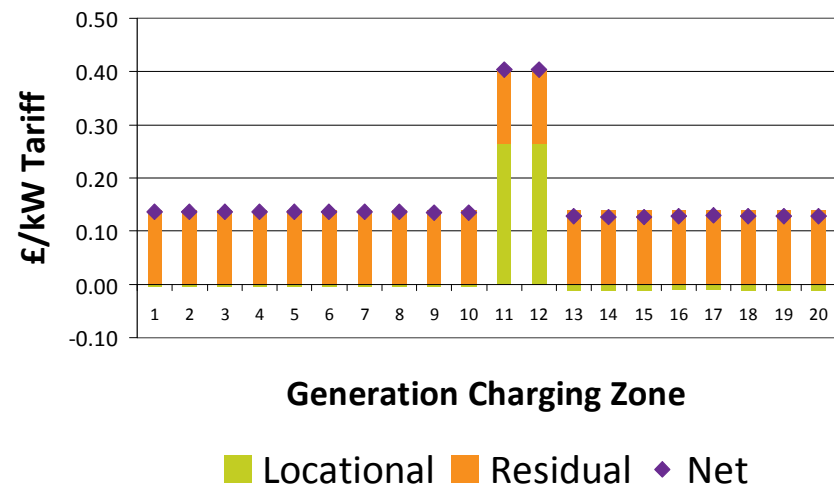
Impact of Uncertainty Mechanisms on transmission charges nationalgrid

- Different uncertainty mechanisms will affect charges in different ways
- Consider the projects below each of which incur a £240M additional spend

Impact of Flooding Works on TNUoS Tariffs



Impact of Undergrounding Works on TNUoS Tariffs



Tariff changes based on assessment in 2011/12 Transport and Tariff model

NGET stakeholder engagement on electricity transmission charging nationalgrid

March 11 NGET engagement: Predictability & Stability



Specific NGET charging discussion at Stage 3 Workshops in November

Sample stage 3 workshop comments

“My impression is that RIIO will mean the charges passed on will be more volatile.”

“It is like squeezing a balloon. Fix it for someone and you can’t fix it for someone else”

“We are open to risk by getting it wrong - which is why predictability is more important than stability.”

“The more information and reporting, the better... At the moment we may know things, but we have to forecast what we think National Grid will be forecasting.”

Stakeholder suggestions

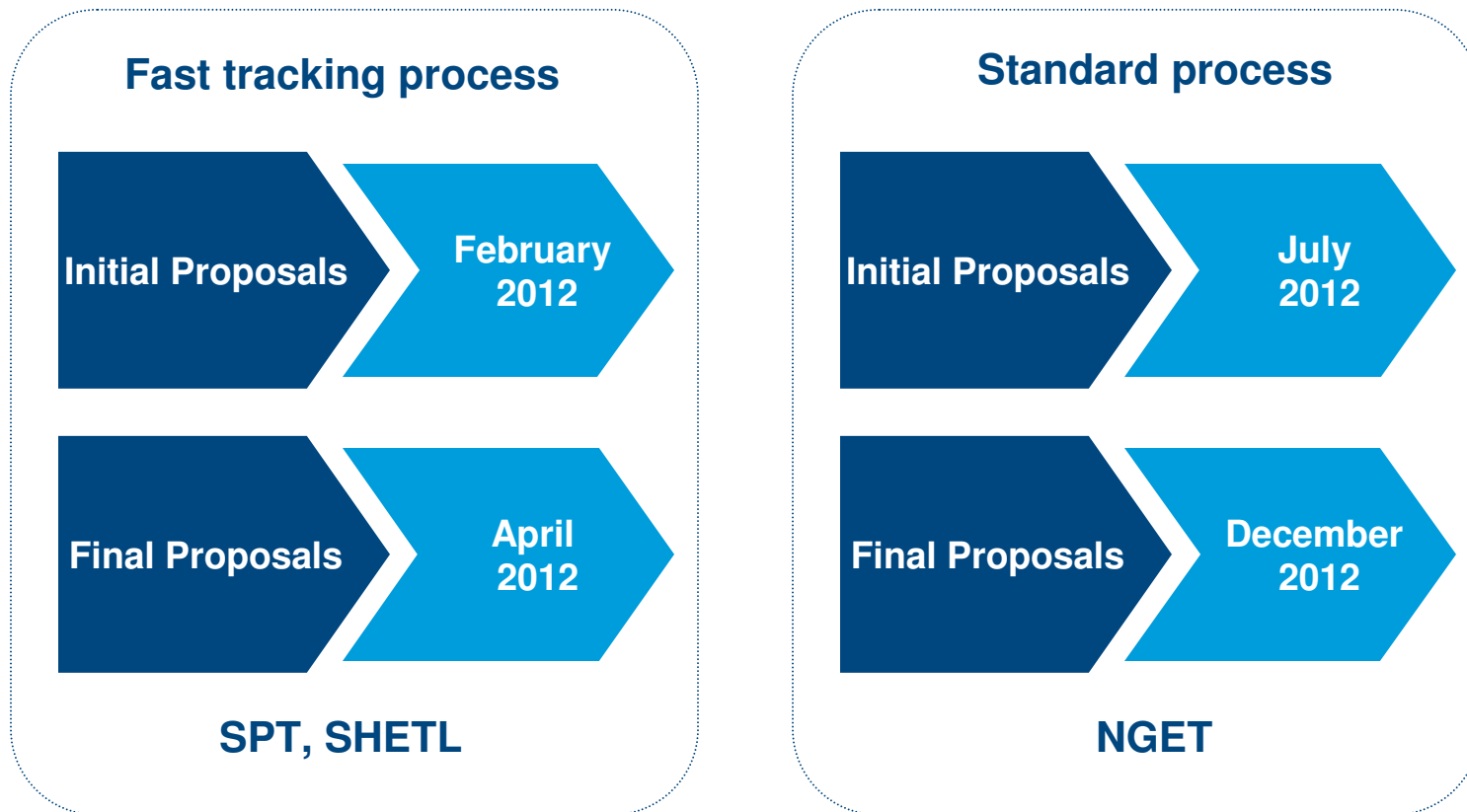
More detailed information for expert users

More transparent numbers for stakeholders

Pre-agreed timings for changes to TNUoS charges

Consideration of fixed price products (smoothing)

RIIO Next Steps



RIIO regime starts April 2013

In summary

- Number of positives:
 - Longer price control period
 - Smoother revenue recovery
 - Uncertainty mechanisms lower revenue requirements
 - Increased customer engagement.
- At a cost:
 - Potential for increased uncertainty, and hence volatility.
- What can we do to help?

Customer service

Innovation

Sustainability

Evidence

Forecast accuracy

Outputs

Totex

Compliance