

The future of electricity transmission regulation

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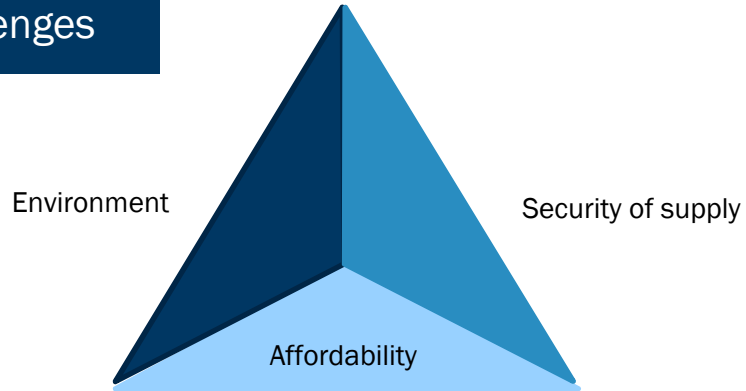
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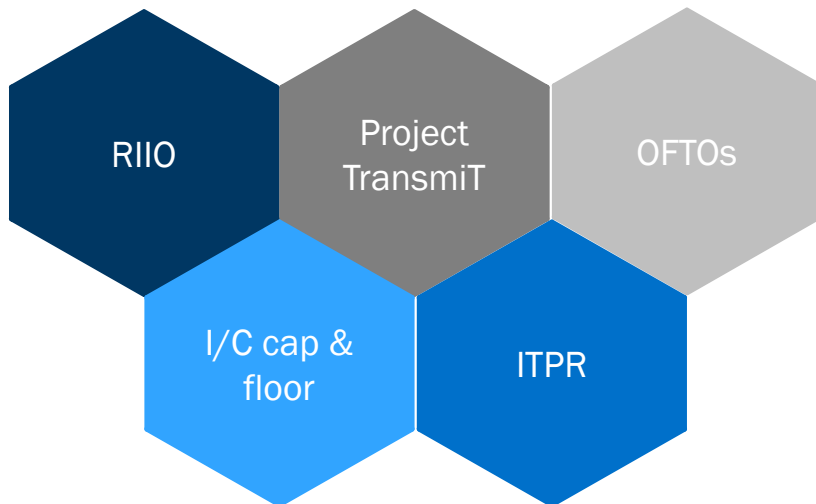
5 June 2015

Introduction

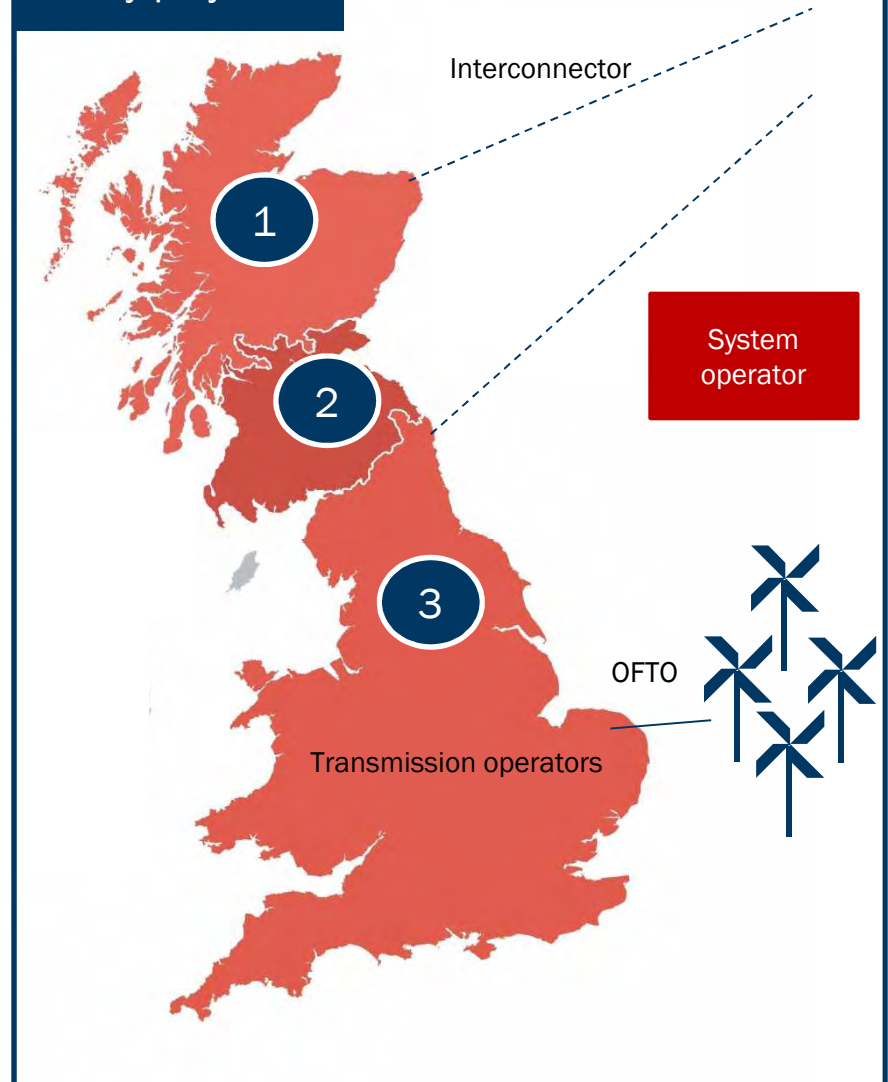
Challenges



Responses

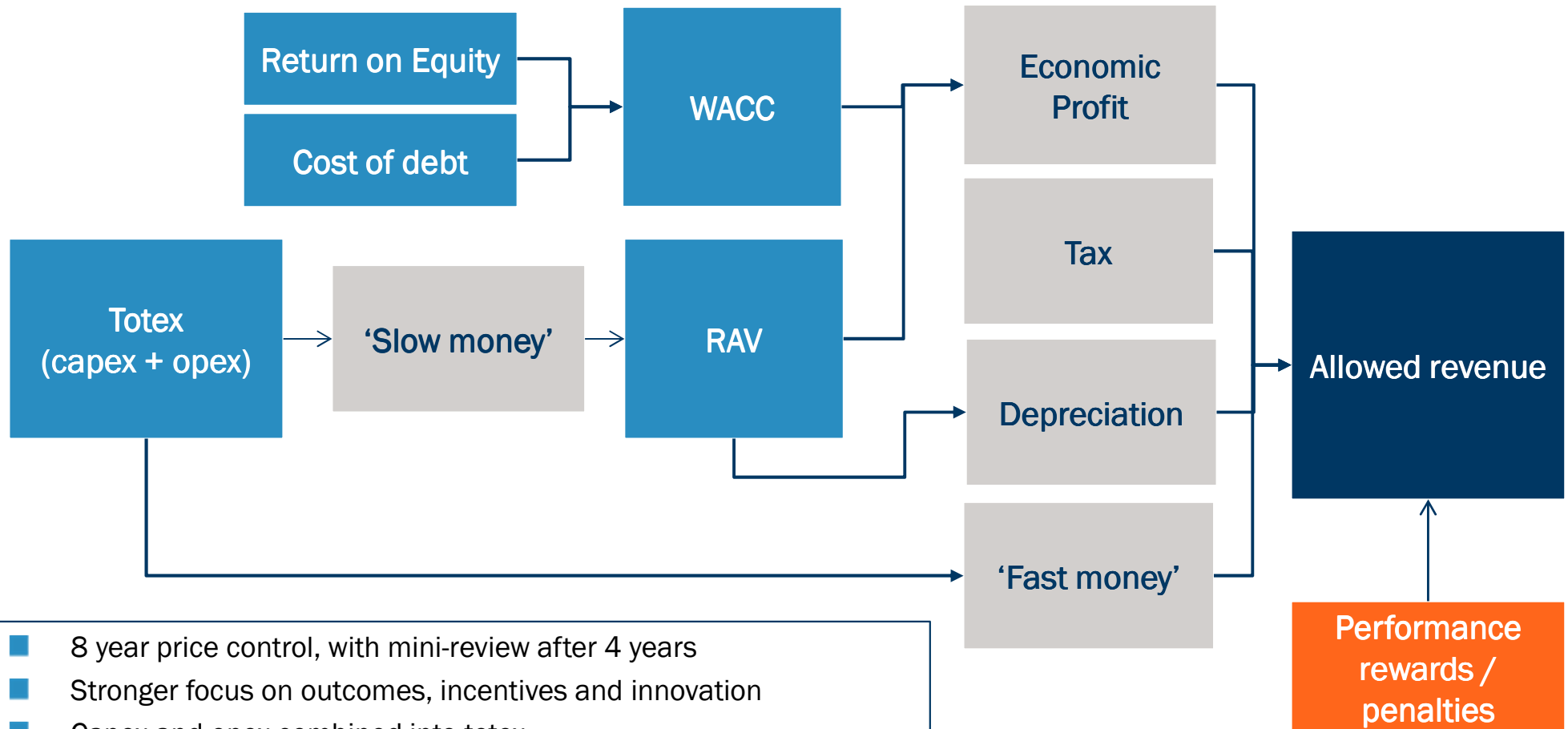


Key players



Core onshore transmission network regulation

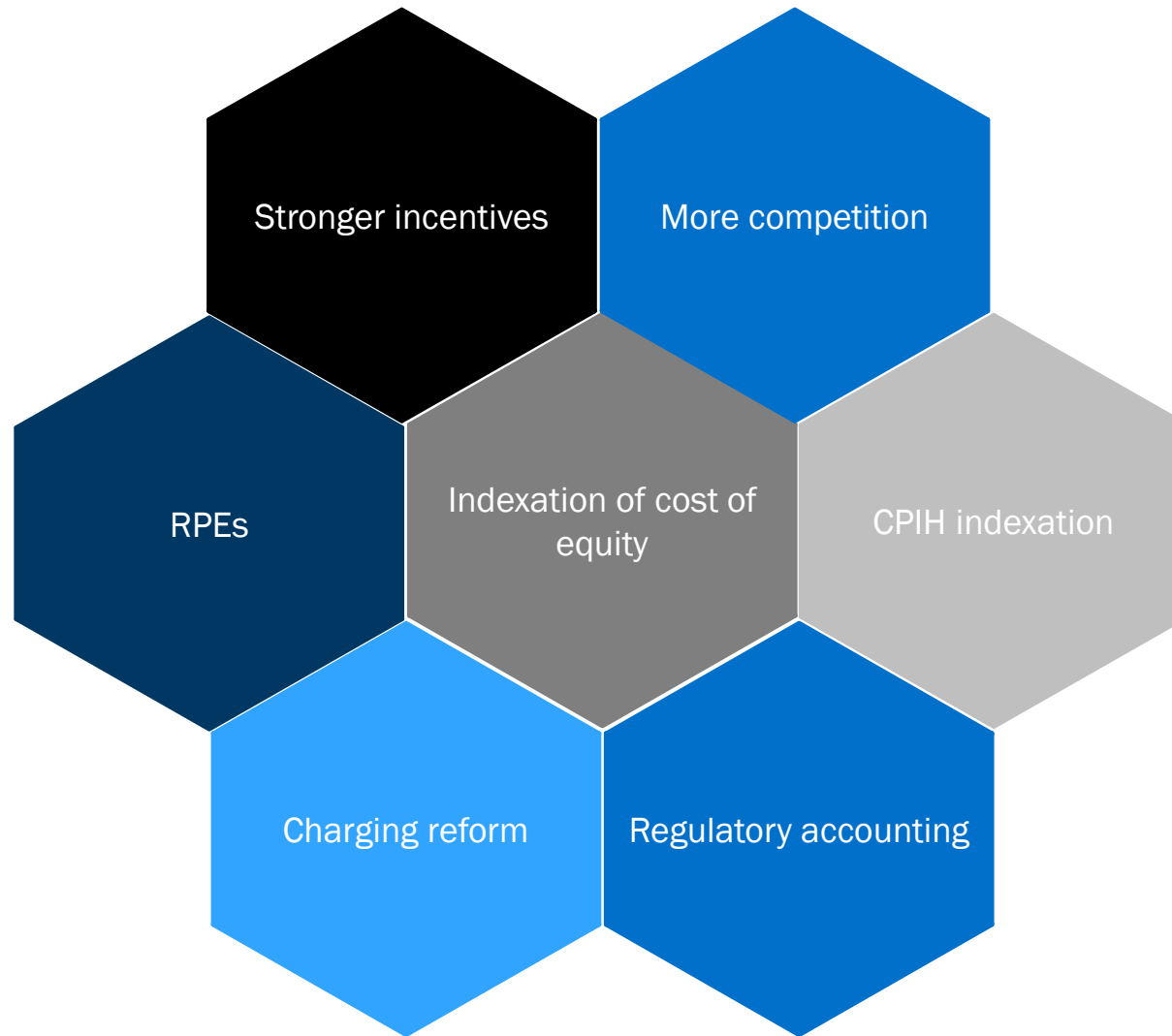
Overview of the RIIO model



- 8 year price control, with mini-review after 4 years
- Stronger focus on outcomes, incentives and innovation
- Capex and opex combined into totex...
- ... which is then split into 'fast' and 'slow' money
- Slow money is added to RAV and depreciated...
- ... but fast money is added to revenues in year
- Cost of debt indexed to trailing average of benchmark bond yields

Core onshore transmission network regulation

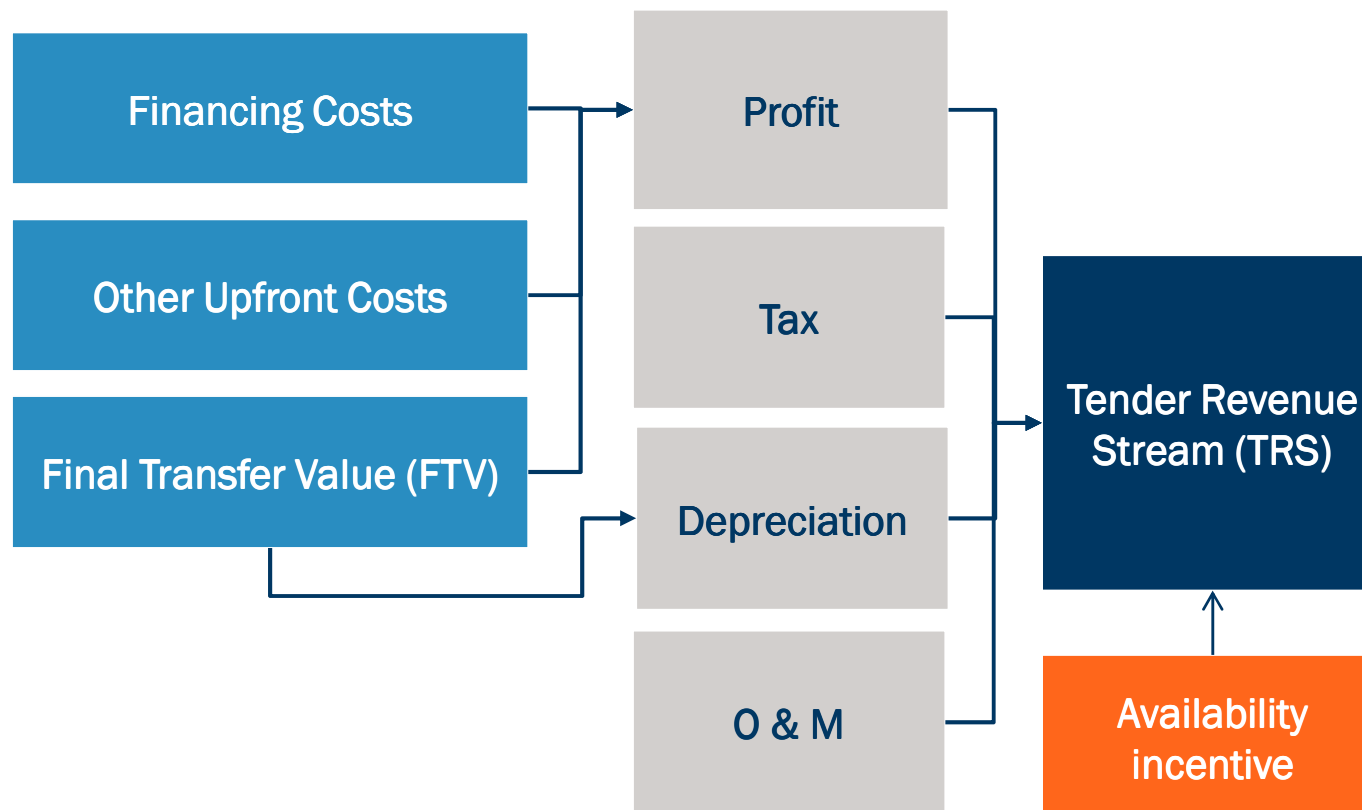
How might onshore regulation change in future?



Offshore electricity transmission regulation

Overview of the OFTO model

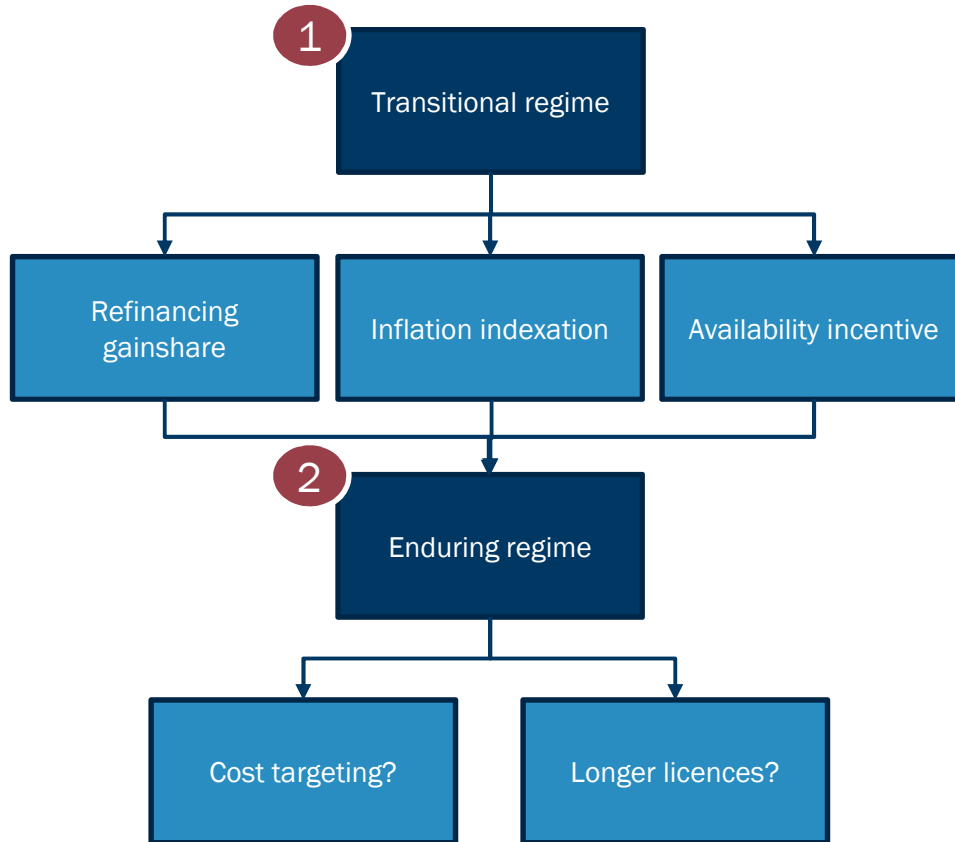
- Offshore electricity cables constructed by windfarm generators...
- ... but then auctioned to the party willing to accept the lowest revenue stream (TRS)
- Parties submitted bids to reflect the expected costs of acquisition (FTV + other upfront costs), financing, tax and operating and maintaining the assets
- TRS reflects these costs, but is constant (other than indexation to RPI) over the 20 year licence period
- Because the lowest bid wins, investors are incentivised to submit the lowest cost bids they believe will win and provide them with an adequate rate of return on their investment



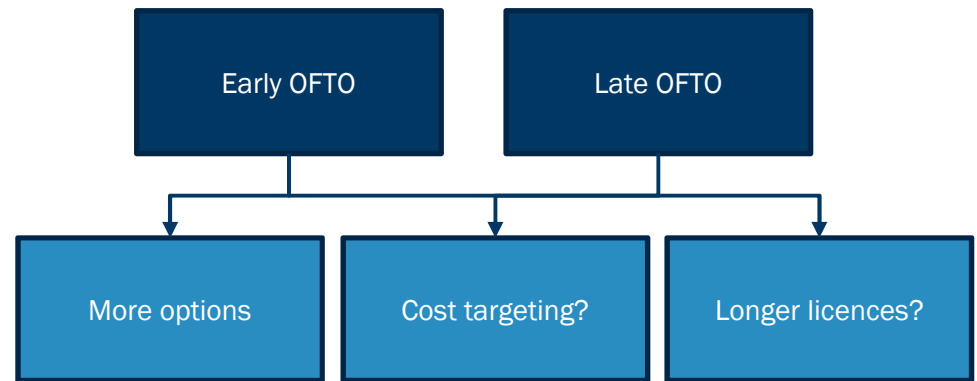
Offshore electricity transmission regulation

How might the OFTO model change in future?

Generator-build model



OFTO-build model



Wider Network Benefit Investments (WNBI)

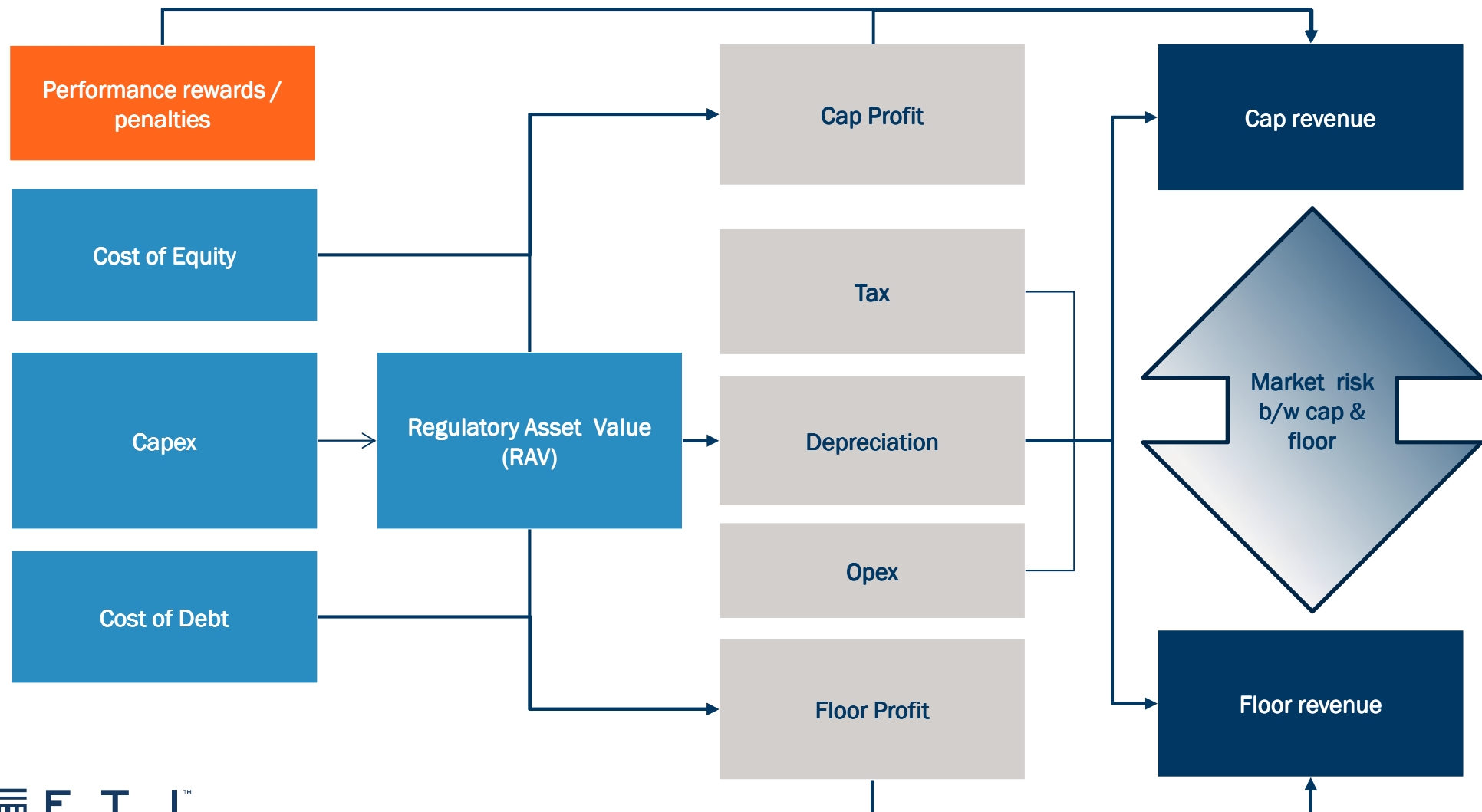


How can investor appetite be maintained and expanded to meet the supply of (increasingly differentiated) investment opportunities?

Electricity transmission interconnector regulation

The cap and floor model

- 20 year licence period, with revenues linked to RPI
- No periodic adjustments, but cap & floor 'true up' every five years



System operator regulation

Ofgem's ITPR proposals

Current arrangements

National Grid

NETSO

Future arrangements?

National Grid

(I) SO

Legal separation?

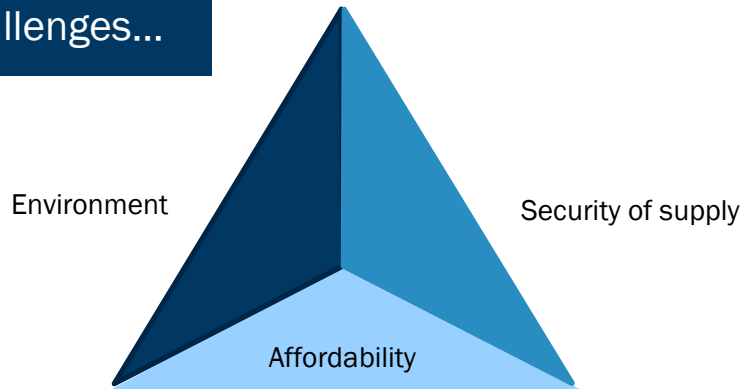
Offshore SO?

Interconnector
planning?

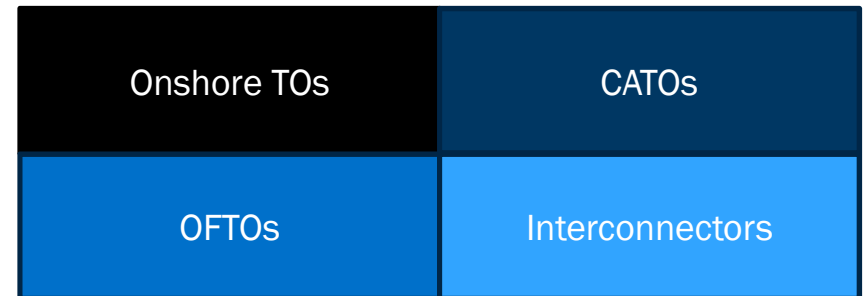
Incentives &
monitoring?

Trends in electricity transmission regulation: will the investment required be secured?

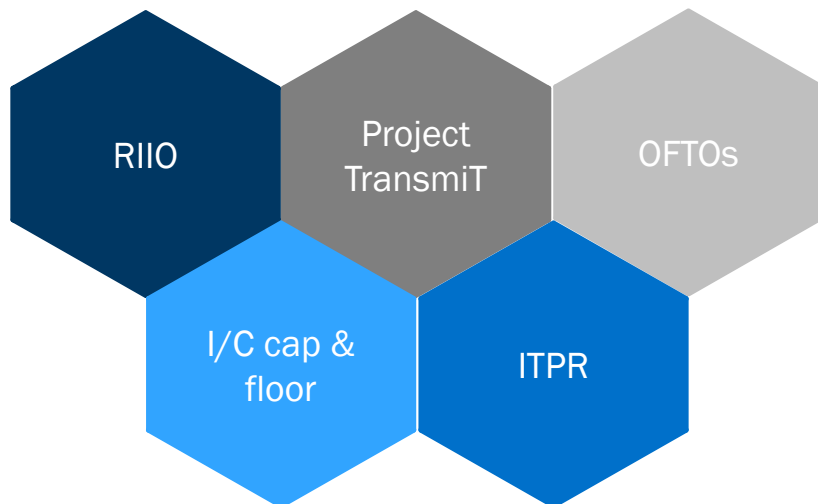
Challenges...



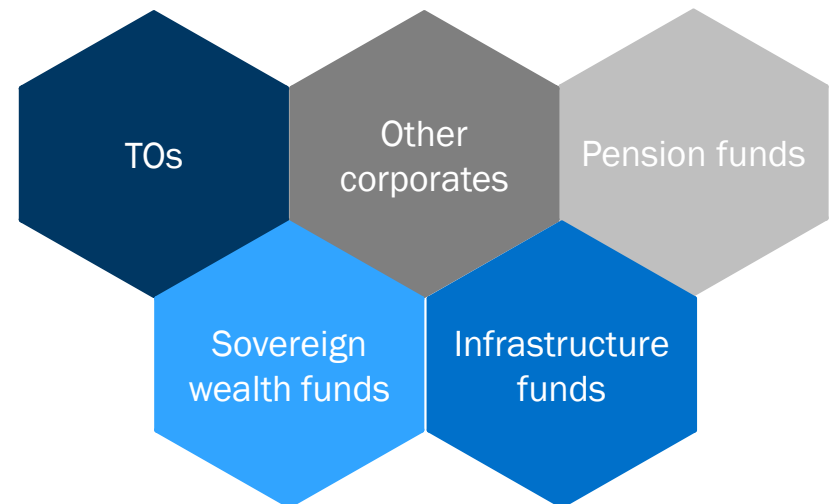
... are creating more and more varied investment opportunities...



... and responses...



... but will investors find these opportunities attractive?



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