



## Baseline plan expenditure and ex ante funding proposals Response to stakeholder questions

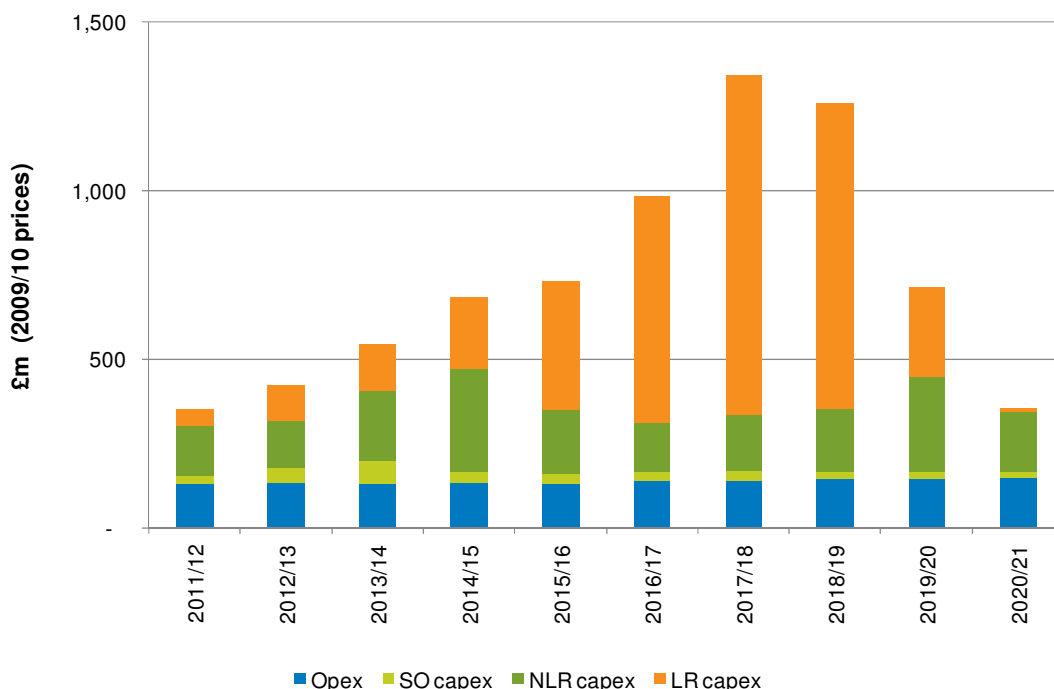
A number of stakeholders had questions about the graphs presented in the business plan section of the workshop on 8<sup>th</sup> November 2011, questioning whether the graphs represented our ex ante funding proposal or our baseline plan. This short document describes the graphs and provides further information.

For clarity:

- Our baseline plan represents one of a great many potential routes through to the end of the RIIO-T1 period, whilst taking account of a longer term view beyond 2021. It supports the Gone Green scenario, which has received wide energy industry support as a credible scenario to meet the UK's Climate Change targets by 2020.
- Ex ante funding is the funding agreed ahead of the price control period that will form part of our allowed revenue.

### Our baseline plan

FIGURE ONE: Baseline plan expenditure (slide 8 in the presentation)



Our baseline plan describes one potential pathway through the coming decade; however there are many different paths. The graph above summarises the totex (operating

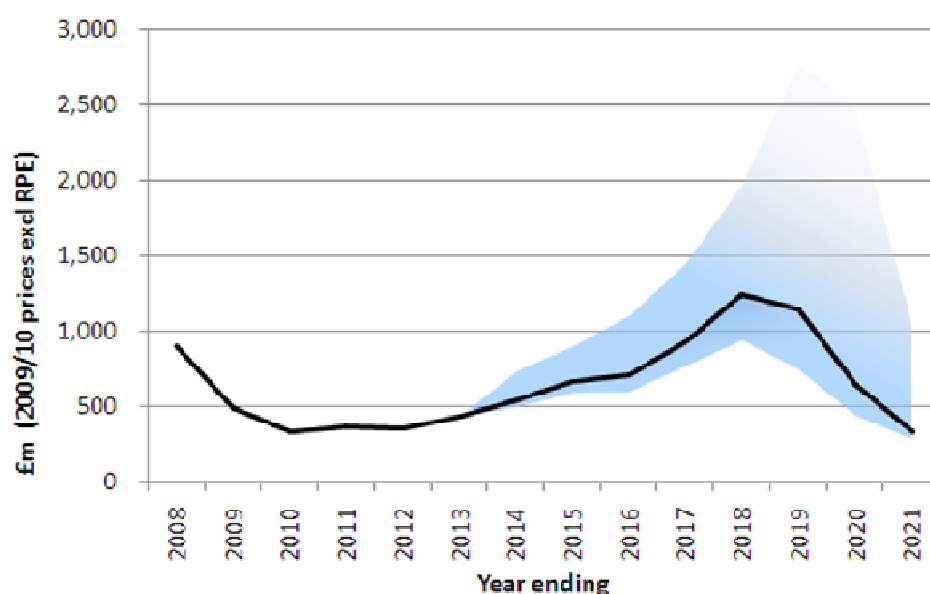


expenditure plus capital expenditure) contained within our baseline plan, which is underpinned by a set of underlying assumptions and anticipated customer requests for capacity. It is in 09/10 prices and includes real price effects. This shows that over the RIIOT1 period we anticipate £6.7bn will be required to deliver the desired stakeholder outputs. Our actual spend, however, will be driven by user requirements and we are proposing uncertainty mechanisms to adjust revenues in line with those evolving user requirements.

We are not requesting ex ante 'core' allowances for the majority of the load related expenditure shown above and are proposing, as part of our package of uncertainty mechanisms, that incremental revenue drivers be utilised for this expenditure, which will be triggered by formal market signals for incremental capacity.

Our baseline capital plan necessarily represents a single view of what will be required - it does not represent a maximum, minimum or extreme position. There are a number of projects which have been excluded from our baseline plan as we have assumed that not all projects our customers are currently discussing with us will progress through to completion and commissioning. We have therefore made a number of judgements based on past experience in developing this plan relating to which customer signals we will see and when. Our baseline plan is a credible view of the future; however we recognise that it is one of a number of outcomes.

FIGURE TWO: Possible range of expenditure (slide 10 in the presentation)





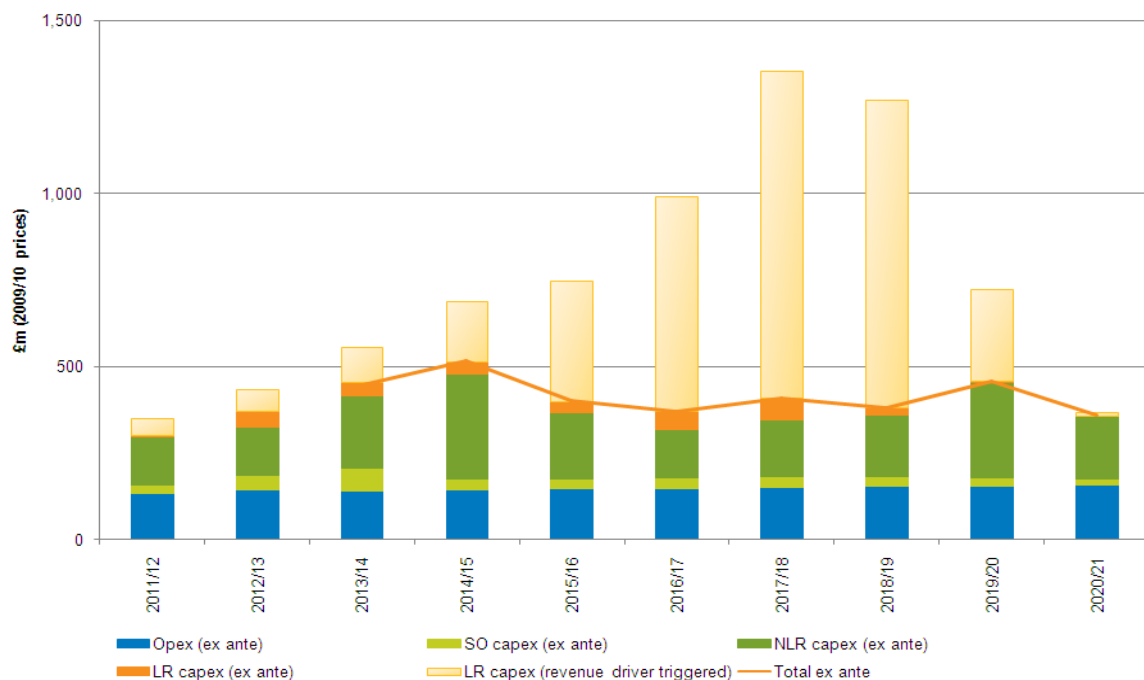
The second graph illustrates our baseline plan shown within a possible range of expenditure, with the lower range estimated from very limited additional requirements from customers etc and the upper range from progression of all connections we currently have enquiries for and additional requirements for environmental and security investment. The black line represents our baseline view and the blue shaded area, our view of credible outcomes / scenarios. To be clear – the black line does not represent the level of ex ante funding we have proposed.

Note this graph excludes real price effects as they are the subject of an uncertainty mechanism themselves.

## Ex ante funding

In response to stakeholder questions we have re-drawn these graphs in order to demonstrate the level of ex ante funding that we are proposing and these are shown below.

FIGURE THREE: Proposed total expenditure included within our July submission



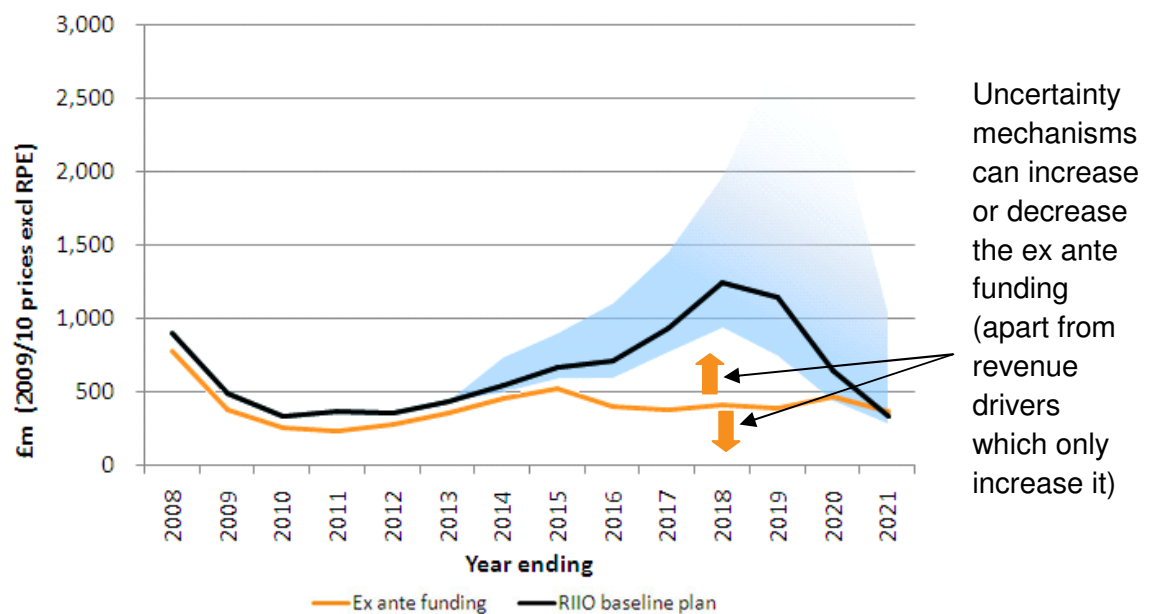


This graph shows the total ex ante expenditure proposed for the RIIO-T1 period (depicted by the orange line). The expenditure that is triggered by a revenue driver (i.e. that which is customer signal driven incremental capacity) is shown in the light orange shading and has not been included in the proposed ex ante funding amount.

We have taken a view of the amount of this incremental capacity that is likely to be required over and above our proposed ex ante funding and have included this within our baseline plan, which is shown by the black line in figures two and four.

Please note that this ex ante amount will change for our submission to March. As a result of stakeholder feedback, the investment referred to as 'network flexibility', apart from that which directly relates to network resilience in Scotland (please see the workshop slides for further detail), will be removed from the ex ante funding.

FIGURE FOUR: Anticipated credible range of expenditure, mapped against our proposed ex ante funding from our July submission



- The orange line shows the proposed level of ex ante funding included in our July submission
- The black line shows our proposed ex ante funding plus the additional funding we anticipate being triggered by revenue drivers in response to customer signals. This is our baseline plan



- The blue shaded area depicts what we believe to be the credible range of outcomes / scenarios
- Our proposed uncertainty mechanisms will increase or decrease our ex ante funding, i.e. move the orange line up or down, depending on what actually happens within the RIIO-T1 period (although revenue drivers can only increase our funding, as they relate directly to incremental capacity)