



# News

## Pylon of the Month

UK's Power Grid Overhaul Spurs Controversy and Opportunity



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06 Aug 2023



Source: National Grid

It isn't often that a plan for power lines tops the national news, but that is what happened when the recommendations of the Winser Report were adopted by the government on 2 August. The reconstruction of the UK electricity grid is urgent, necessary, a massive undertaking and not without controversy.

Earlier this year, National Grid energised its first T-Pylon at Sanford in Somerset. The new pylon design was the winner of a UK Government competition that had to 'address visual amenity concerns'.

As well as winning a government competition, the T-Pylon was 'Pylon of the Month' on the eponymous website and new installations are getting some favourable comments on the Facebook page of the 'Pylon Appreciation Society'. For investors, the growing number of new pylons in the UK will come with rewards that are more financial than aesthetic.

## **Why we need more pylons**

Bloomberg has estimated that for the world to achieve net zero by 2050 it will require 152 million kilometres of power lines – 'If you deconstruct the electricity grid and lay it out in a single line, those cables will stretch all the way to the sun' <sup>1</sup>. The world's need for more cable and, of course, more pylons is becoming a bottleneck in a journey to both energy transition and energy security.

The lack of connections risks deterring the development of new renewable energy – and pressure is growing to accelerate the pace of investment in the electricity grid. As one wind farm company wrote to the regulator, Ofgem, 'Security of supply, net zero targets, as well as lower bills for consumers are all largely dependent on the rate of deployment of transmission network infrastructure, and we are deeply concerned that this is not keeping up with what is required'<sup>2</sup>.

The war in Ukraine only adds to the pressure to build connections for the UK's abundant renewable resources. If we want to be less dependent on Russian gas, we must connect our cities to British wind.

## **Profiting from Pylons**

Whilst you will often hear complaints that most British utility infrastructure has been sold off to foreigners, that is not true for the 'transmission' assets which connect electricity generation to towns and cities. UK electricity transmission is split into three companies, with both National Grid (England and Wales) and SSE (North of Scotland and Southern England) listed on the London Stock Exchange. Our portfolio has meaningful holdings in both companies.

The attraction of owning transmission assets is that they receive a guaranteed and ongoing return on the infrastructure they build. In simple terms, the more pylons, the more profit. The return comes directly from consumer bills, however, infrastructure remains a small part of overall costs, which are dominated by energy consumption. Regulation also serves to protect the profits from inflation, providing investors with a fast-growing, visible and defensive profit stream.

The key growth driver is therefore how fast the regulator will allow the companies to build the transmission infrastructure that is needed.

## **The pylons are coming**

Earlier this year, the UK energy regulator announced plans to reduce the bottleneck and accelerate transmission investment – a move that SSE's CEO has described as 'a game changer'<sup>3</sup>. It includes upgrades to stretches of the 25,000 km of overhead transmission lines that cross the UK to connect the massive offshore wind farms being built in the North Sea.

The regulator's plans also included 17 projects awarded to National Grid, extending its growth runway well beyond the end the decade. Much of National Grid's work will not involve above-ground pylons, but rather the completion of the 60km of London Power Tunnels or 10km of underground cables that run from the Dinorwig Power Station in North Wales.

Regardless of whether the infrastructure is underground, overground or along the seabed, for both National Grid and SSE, these projects allow them to grow their transmission asset base. We expect National Grid's electricity transmission assets to grow 40% by 2027, and another 40% by 2032. The company's UK assets sit alongside its US electricity assets that are subject to the same

growth tailwinds.

Growth at SSE is likely to be even more significant given the abundance of wind in places like the Shetlands, and the distances that need to be covered to get it to large populations. In May, the company announced that it expects its transmission asset base to grow by 75% by 2027 and another 75% by 2032.

SSE now expect earnings to grow between 13—16% every year until 2027, and we assume a similar level of growth out to 2032. These assumptions should be conservative, with the company expressing that ‘these targets are only going in one direction’.

### **Everybody happy?**

These newly accelerated plans go some way to helping the UK to reduce carbon emissions and build energy security whilst giving a proportionate, stable and growing return to shareholders. Not all stakeholders are satisfied. Several renewable energy firms think transmission growth needs to be even faster, whilst some locals are unhappy with the design of the new pylons. The Weston Mercury reported one resident complaining, ‘They remind me of MC Hammer’<sup>4</sup>, which might be a compliment, or it might be a complaint.

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### **Sources**

<sup>1</sup> A Power Grid Long Enough to Reach the Sun Is Key to the Climate Fight By Nilushi Karunaratne, BloombergNEF 6/3/2023

<sup>2</sup> Ocean Winds response to Ofgem consultation, 6/9/2022

<sup>3</sup> Alistair Phillips-Davis, CEO SSE, SSE Full Year Results Presentation, 2023.

<sup>4</sup> <https://www.thewestonmercury.co.uk/news/23419540.residents-react-new-t-pylons-bridgwater-loxton/>

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