

# **SSE plc (SSEZF) Q4 2024 Earnings Call Transcript**

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**Body**

SSE plc (SSEZF)

Q4 2024 Earnings Conference Call

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Company Participants

Alistair Phillips-Davies - CEO

Martin Pibworth - CCO

Barry O'Regan - CFO

Conference Call Participants

Rob Pulleyn - Morgan Stanley

Mark Freshney - UBS

Deepa Venkateswaran - Bernstein

Ajay Patel - Goldman Sachs

Jenny Ping - Citi

Dominic Nash - Barclays

Peter Bisztyga - Bank of America

Harry Wyburd - BNP Paribas Exane

Charles Swabey - HSBC

Pavan Mahbubani - JPMorgan

Presentation

Alistair Phillips-Davies

Good morning, and thank you for joining us for our Full Year Results Presentation. I'm joined by Chief Commercial Officer, Martin Pibworth; and Barry O'Regan, our Chief Financial Officer. We'd be delighted to take your questions after we present the results of what was a good year of delivery as we continue to power sustainable growth across the group.

First, I'd like to acknowledge the people behind today's results. SSE's ongoing success depends on the employees and contractors who deliver our strategy. Keeping them safe is our top priority, and we were deeply saddened by the loss of Richard Ellis, the employee of a contractor who died in an off-site incident in October last year. Our thoughts remain with Richard's family, friends and colleagues.

Our workforce is growing significantly to deliver our construction program, and we are redoubling efforts to ensure everyone on an SSE site gets home safely. As part of this, we recently opened Scotland's first immersive safety training center. It will serve up to 7,000 colleagues and contractors per year over the next three years before being open to a wider industry, and it reinforces the importance of embedding a strong safety culture across our activities.

Before we get into the detailed financial and operational review, I'd like to take a few minutes to give a brief overview of the past year and tell you why we remain confident about our future growth prospects. This year has demonstrated three defining features of SSE, our track record of powering growth and delivering major projects, the resilience of our business model in a range of market conditions and the continued strengthening of our growth prospects with multiple high-quality options to deploy capital where we can generate most value for shareholders and society.

As you will see, delivering the fully funded £20.5 billion Net Zero Acceleration Program Plus, NZAP Plus as we like to call it, has been at the forefront of the last year. And as we execute on this plan, we're also delivering increasingly high-quality sustainable earnings that reflect the premium nature of our portfolio. And you can see this in the strong EPS growth we're delivering, which is just -- which is going from just under 95p in 2022 to 158.5p today and then onwards to 175p to 200p in 2027. That's a run rate of between 13% and 16% compound earnings growth per annum.

The upweighted investment in regulatory networks that we announced in November means that 55% of the CapEx plan is now allocated to the significant growth we see in those businesses, particularly transmission, which is one of the fastest-growing networks in the world.

This investment provides real equity returns that are stable, relative to inflation, and the regulatory mechanic means we receive an upfront fast money earnings benefit from this increased investment, which also happens to be absolutely vital to the energy transition and the U.K.'s economic prospects. And crucially, we have largely locked in the supply chain derisking delivery.

In Renewables, we've selectively progressed organic projects across a range of technologies that provide strong risk-adjusted returns in line with our hurdle rates. And as I say, this is high-quality, sustainable growth.

The majority of earnings are protected from market volatility and a large proportion of debt is locked in at fixed rates. We have an optimized business mix that means earnings are resilient to a range of scenarios. And as you'll hear from Barry shortly, we have every confidence we'll meet our 2027 earnings guidance and go on to create even more high-quality growth after that. That confidence and growth is underpinned by our unique value proposition.

SSE is at the heart of the energy transition, which is one of the great structural growth opportunities of our time. Renewables, flexibility and networks will be the three key pillars of the future energy system. And across these essential technologies, we have a premium portfolio of projects giving us a wealth of options to deploy capital in attractive markets and good returns.

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As you can see with networks and renewables in particular, we have two powerful growth engines that will deliver high-quality earnings for many years to come. And alongside this, we have a pipeline of options to harness the value flexibility as this comes to the fore. All of this means SSE is in the right place at the right time with the right business model to deliver strong growth, maintain a robust balance sheet and create significant value for shareholders and society. It's a very exciting time to be in energy, and I believe SSE is uniquely placed to thrive.

I'll now turn to Barry to give us an overview of the financial results.

Barry O'Regan

Thank you, Alistair, and good morning, everyone.

Over the next few slides, I'll take you through what was a very resilient financial performance for the group in the last year, enabling us to invest in the strong growth options we have across the portfolio. I'll then move on to the outlook for the year ahead before explaining our confidence in delivering our 175p to 200p adjusted EPS range as our pipeline of projects converts into high-quality, sustainable earnings.

Let me start with a summary of the 2023/'24 financial year. The group delivered adjusted operating profit of £2.4 billion, 4% lower than the prior year. This solid performance again shows the resilience of our business model, coming as it did despite the impact of reduced market volatility and inflationary pressure, which, combined with unfavorable weather, is reflected in the individual performance of our businesses. And with around 90% of the CapEx invested in networks and renewables, it was especially pleasing to see those businesses grow earnings by £200 million, a collective increase of 16% year-on-year.

Adjusted operating profits in our regulated Networks businesses reduced by £63 million during the period, mainly due to timing factors, which I will outline in the coming slides, with our market-based businesses proving their resilience despite continued normalization of power prices.

This strong performance in challenging conditions meant that adjusted EPS was 158.5p, delivering on the upper end of the guidance provided in our pre-close statement. And as Alistair has said, we continue to make progress on the delivery of our flagship projects by investing £2.5 billion this year, sowing the seeds for strong earnings growth to 2027 and beyond.

SSE's long-standing hedging approach has proved a great asset over the past two years, providing stability and confidence in future earnings. And the remeasurement of these hedges, which are unrelated to the current financial year performance, has created a positive fair value movement mainly due to falling commodity prices. These same falling prices are also reflected through the impairment in Triton Power recognized in interim results, as well as in gas storage, both of which follow a period of strong operational cash flows.

And finally, we have taken an impairment on our noncore investment in Neos Networks, which reflects a wide range of reasonable possible valuations, given difficult trading conditions. These noncash adjustments mean that reported operating profit is almost £200 million higher than the adjusted numbers we focus on as the truest indicator of underlying business performance.

Turning to SSEN Transmission performance, headline adjusted operating performance increased by 13% to £419 million. However, when normalized for the minority sale in November 2022, this is equivalent to an underlying earnings growth of 38% from the prior year.

This was mainly driven by increases in allowed revenues under RIIO T2 as the business starts to deliver on its long-term investment program, combined with a positive timing impact from tariffs. Partially offsetting this are additional costs from a higher headcount as well as higher depreciation charges as the business ramps up a substantial growth program.

SSEN Distribution's operating profit was down 29% year-on-year to £272 million. As we have flagged before, this is as a result of inflation in the cost base not being reflected in the tariffs for the regulatory year, which were set back in December 2021. Clearly, this is a timing difference that will reverse and allow for significant earnings growth in FY '25 as tariffs catch up with the cost inflation seen over the past two years.

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In Renewables, we were delighted to announce Seagreen reaching full commercial operations during the year, resulting in a 527-megawatt net capacity increase to the fleet. And I am even more delighted to see those earnings come through and helping to drive the uplift in operating profits for offshore wind.

Onshore, the Scottish fleet was impacted by reduced wind speeds, which, when combined with 10 named storms, resulted in 6% lower output year-on-year. However, the fleet did benefit from a higher hedge price going into the year, which more than offset this impact. Together, these factors meant that SSE Renewables' operating profit increased by 48% year-on-year to £833 million. And we see substantial future earnings growth coming as we continue to deliver our renewables pipeline.

Following a highly volatile year for the Thermal & Gas Storage business in FY '23, we expected earnings from these businesses will begin to normalize. And this has happened with Thermal delivering operating profits of £819 million in the period. We know that flexibility has played a critical role supporting both the GB and Ireland energy systems this year and will continue to be a valuable part of the future energy system.

As Martin will cover, this is reflected in recent strong capacity market auction results for future delivery years. So whilst we do expect earnings to continue to normalize from the levels seen over the past few years, we remain confident in achieving strong remuneration from these businesses in the future when comparing to historic levels.

In our Customer business, we are seeing supply profitability return to the level we would expect in more normal trading conditions as we price competitively and extend our offerings in the GB and Irish markets. The business also saw benefit from increased income from wind farms contracted to electricity, and this profit continues to support group investment in renewable assets delivery.

In GB and Ireland, we continue to price responsibly and support customers as best we can by passing on tariff reductions, establishing a £15 million customer support fund in GB and recently launching a €5 million community fund in Ireland supporting homes and businesses. The future strength of this business can only be a good thing for society whilst reinforcing the value customers offer to our portfolio.

I won't go through all of the numbers on this slide, which are relatively small in the context of the wider group. In summary though, lower SSE Energy Markets' profitability reflects lower optimization opportunities in a less volatile energy price environment, while continued investment in our SSE Enterprise and Neos Networks businesses means they continue to incur small planned losses.

And finally, below the line, finance charges fell, reflecting in part the interest on construction projects being capitalized and the tax rate was stable, although we expect this to fall in future years, as I will come on to. Dividends remain an important part of rewarding our shareholders. And in line with the dividend plan set out this time last year, we are proposing a full year dividend of 60p per share.

The strength of SSE's balance sheet is key to our ability to ramp up investment in high-quality, long-term infrastructure as we deliver on the NZAP Plus. Adjusted net debt increased to £9.4 billion at March 2024 with 93% held at fixed rates, which provide stability and predictability.

This represents a net debt-to-EBITDA ratio of only 3x, well below our target range of 3.5 to 4x. We continue to expect to be below the ceiling looking out to 2027, meaning that the £20.5 billion NZAP Plus investment is comfortably funded within existing means. And this is recognized by our strong investment-grade credit ratings.

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Before I hand over to Martin, let me spend a moment on the outlook for this financial year as well as the update on earnings progress to 2027. Given some of the timing differences seen in our regulatory businesses and the continued normalization of power prices over the last few months, we have set out here some of the moving parts we expect for each business in the forthcoming year. The most significant are in Distribution and Thermal.

In Distribution, operating profit is expected to more than double as tariffs catch up to recover the cost inflation over the last few years. In Thermal & Gas Storage, profitability is expected to fall significantly year-on-year as a result of lower power prices, though, as I've said, profits are expected to remain above historical averages. But even in a low case volatility scenario with limited extrinsic value, we would expect this business to achieve at least £200 million operating profit with significant upside potential.

Across the other businesses, timing differences in Transmission means profits are expected to be lower, whereas, in renewables, we expect that higher hedge prices combined with capacity additions from Viking and Dogger Bank adding to a full year's contribution from Seagreen will drive a material increase in expected operating profits year-on-year.

As ever, final performance will be dependent upon market conditions, plant availability and weather with the seasonality of earnings preventing more specific earnings guidance at present. Therefore, consistent with the approach we have taken in the past, we will look to give specific guidance later in the financial year.

As with any long-term plan, the expectations and assumptions for each component will change over time to reflect an ever-evolving environment. And the normalization of market prices and increased investment opportunities means we have rolled forward our medium-term operating profit guidance for each individual business.

You'll notice the average operating profits we expect are now higher in Transmission, fully reflecting the £2.5 billion additional investment announced in November, and lower in Renewables and Thermal, updated to reflect the prevailing market environment. And whilst our assumption on cost of debt before capitalization remains unchanged, the average adjusted effective tax rate has significantly decreased, which reflects both the upweighted investment plan and the extension of capital allowances announced after our interim results.

Profit guidance for individual businesses will naturally change over time. However, our overall outlook reflects a diverse and resilient business mix with increasingly high-quality earnings that is capable of evolving to deliver in a range of different market scenarios.

Our main focus is on delivering our 2027 targets. And as I will spell out in the next slide, we remain very confident of delivering the EPS growth we originally set out. Our confidence in that 175p to 200p guidance is based on the strength and resilience of our growth, given the significant and achievable investments we see across Networks and Renewables.

In Networks, we have already secured, with Ofgem, capital programs which will see SSE's annual CapEx more than triple versus today, generating significant fast money revenues upfront alongside significant long-term RAV growth.

When combined with the doubling of renewables output across the plan and the reduction in tax rate from the extension of capital allowances, we are sure these drivers will offset any impact on merchant elements of our businesses from the prevailing energy commodity price environment. Where we end up in that range will depend on our ability to unlock further growth, whether through additional regulatory investment or through Renewables projects that have yet to take a final investment decision.

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And don't forget that our 6.5 gigawatt flexible fleet stands ready to provide additional value should prices rise or volatility continues. First and foremost though, we will maintain our capital discipline. As I said in my first results presentation back in November, SSE will always choose value over volume.

So, in closing, I'll just reiterate that we have every reason to believe our diverse yet balanced mix of businesses will deliver our 175p to 200p EPS range for 2027.

I'll now pass you over to Martin to talk through operational performance for our energy businesses.

Martin Pibworth

Thank you, Barry, and good morning, everyone.

2024 has been dubbed the Year of Elections. And while politics can sometimes accentuate differences, there is widespread acceptance of one fact. Electricity is the future and society is going to need a lot of it. Almost every industry over the long term will need to increase their electricity demand, whether they are looking to decarbonize, grow or evolve.

Whether it's through the steady long-term decarbonization of heat and transport or the rapid near-term expansion of data centers to support the growth in artificial intelligence or cloud-based applications, demand for our core products is only getting stronger. And we are seeing for ourselves this increased demand for green electricity from corporates, which we hope to convert into contracts that will support our existing pipeline as well as leading to new projects.

So given its inevitability under every future energy scenario, the structural shift to electrification is a significant growth opportunity and it is one which SSE is uniquely placed to benefit from given our market presence, optionality across the value chain, our ability to deploy capital at good returns and our focus on delivering high-quality, sustainable growth. Basically, we can and will go wherever the value moves to within the energy transition. And this is due to our business mix.

As Alistair and Barry have both said, this is a highly resilient business that is deliberately designed to weather all scenarios. The portfolio is already adapting well to what is a calmer pricing environment after recent volatility. Of course, for the unregulated businesses, there will always be uncertainty over wholesale prices, which we mitigate in part through the renewables hedging activity you can see here.

We have also updated our assumed long-term power price for unhedged merchant renewables, which is now £65 a megawatt hour. But as Barry covered, this is not materially impacting our 2027 EPS targets.

It is also worth noting that these power prices are set against a gas price at a 3-year low and contain a U.K. carbon price which we believe is unsustainably dislocated from the EU equivalents, a fundamental unlikely to persist. Furthermore, this power price does not include other income streams from renewable assets, which have become more favorable, such as the value of green certificates, ancillary services or, indeed, capacity mechanism payments.

Turning to Thermal, as Barry has outlined, while power prices are normalizing, market dynamics mean we expect profitability to remain above historical averages. Lower prices mean we naturally see lower intrinsic value in selling power when compared to the previous two years, but this is partly compensated by greater revenues from the fleet's reactive or extrinsic role as it flexes to capture value from short-term demand.

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And while it may not be as visible, market volatility does remain high even at these lower price levels. In Ireland, the higher price environment has continued, with flexibility at a premium, and our assets are well positioned to help provide security supply.

In both GB and Ireland, earnings will continue to be supported by capacity market auctions which achieved record levels this year. This reflects the ongoing medium-term concern over security of supply, and these strong auction results provide a stable underpin for our Thermal profitability outlook. In summary, the diverse and complementary revenue streams offered by the market-facing businesses will continue to add value in a range of scenarios.

Let's now turn to Renewables. We've consistently said that individual period-on-period wind speed variations matter less than long-term averages when it comes to value creation. Scotland saw lower wind speeds in prior year and the 10 named storms over the key winter months provided our business with a number of logistical challenges. Whilst onshore wind volumes were negatively impacted, our team rose to the challenge by maintaining high levels of availability despite the difficult operational conditions.

For offshore, whilst the business also saw the impact of lower wind speeds, the overall performance was assisted by an uplift in our generating capacity, which meant that overall volumes were up year-on-year. With 2.8 gigawatts under construction, combined with a full year of operation from Seagreen, we expect that overall renewables volumes will double from the current financial year's output through the next few years.

And whilst a number of these construction projects will run merchants in the period to 2027, this is just a timing issue as auction successes mean that around 50% of this volume will be contracted under long-term fixed-price contracts, delivering high-quality, predictable earnings.

In the last year, we made excellent progress towards our 2027 targets. Seagreen reached commercial operations in October and performance so far has been ahead of expectations. Meanwhile, work at Viking on Shetland has also gone very well with commercial operations expected this summer, ahead of schedule and budget. It will be one of Europe's highest-yielding onshore wind farms and is fully contracted through attractively priced CfD contracts. Along with Dogger Bank, these high-quality nationally significant projects give us a clear pathway to adding around 4.5 gigawatts of capacity to our Renewables portfolio over the next three years.

Meanwhile, in Southern Europe, we are advancing projects with construction of the 64-megawatt Jubera onshore wind farm in Spain, now underway, following on the heels of Chaintrix in France. We expect to take FID on several further projects over the next 12 months as we build out, with discipline, our 2.3 gigawatts secured pipeline of onshore wind and solar projects across Southern Europe.

So as you can see, we are building multiple large-scale, complex projects, and the experience we have in delivering them is a real differentiator. Progress on projects like these isn't always linear, as we have seen recently at Dogger Bank, where we are building the world's largest wind farm. We have made real progress on that site over the last 12 months with all 95 monopiles and transition pieces installed, around 70% of the inter-array cables in place and 16 turbines either part or fully installed.

We have had a number of short-term delays caused by vessel availability, poor weather conditions and minor snagging issues which have prevented us from making the progress we originally expected. But the installation vessel is back on site and with an expected run rate of around 10 turbines a month over the summer months, we are continuing to install turbines at a faster rate.

And with the offshore HVDC substation fully commissioned, these turbines will start exporting power and generating revenue as they are installed and commissioned. With project contingencies and the benefit of the 15-year index-linked CfD contracts in place, we still expect this project will deliver full value in line with the mid-teens equity returns we anticipated at FID.

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The key point is that, whilst Dogger Bank is clearly a complex project, we have an experienced project team who are targeting the first half of the 2025 calendar year for delivering its full capacity of 1,200 megawatts. When combined with a load factor approaching 60%, this single phase will generate around 6 terawatt hours of clean electricity each year.

And the pipeline of projects that will keep this renewable growth engine running beyond 2027 keeps growing and converting. As well as our 605 megawatts of U.K. CfD awards in September, we are progressing our closed route to market in Ireland and continue to make additions while applying the capital discipline that Barry has already focused on.

Seagreen1a is eligible to bid for CfD in the coming allocation round, and we expect a decision on Berwick Bank's planning consent this year. We believe, ultimately, that both prospects will be contracted into the U.K. auction mechanisms, and we are conscious of achieving appropriate value for these organic options.

In onshore wind, Yellow River in Ireland is on track for summer completion. And our JV with Bord na Mona has opened up the potential for up to 800 megawatts of onshore wind over the next decade with a credible delivery-focused semi-state partner.

Further afield, we have developed an early-stage opportunity to deliver over 900 megawatts of solar PV in Poland, and we continue to closely monitor developments in Japan, where the government has recently launched its Round 3 offshore auction.

These opportunities will benefit from the strong local teams and partnership arrangements we have on the ground. Our international activity remains disciplined, focused on growing from the footholds we have created in a highly selective, measured way while competing in attractive auctions with local partners.

Let's now turn to flexibility, which is one of the key building blocks of the future energy system. Policy has not moved as quickly as we'd like in this area, but progress is inevitable, and we are set to benefit across a range of technologies. We've already highlighted how the capacity mechanism is beginning to reward the value of availability.

This year, we have seen significant delivery in our battery portfolio with our first commercial operations at our 50-megawatt project at Salisbury. But this is just the start. We have a strong battery pipeline, including 620 megawatts already in the construction phase across Ferrybridge, Monk Fryston and Fiddler's Ferry. Meanwhile, final commissioning is underway at our 55-megawatt joint venture energy-from-waste facility at Slough. Commercial operations are expected this summer, ahead of schedule.

We are also moving closer to a final investment decision on 450 megawatts of HVO new build capacity in Ireland at Tarbert and Platin, which will provide vital security supply in that market. And we are continuing to progress exploration work at Coire Glas.

After much encouragement from us, the U.K. government is now actively consulting on a cap and floor mechanism that would provide vital revenue stabilization for long-duration storage projects like this.

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The Commons Science and Technology Committee has also recently been encouraging them to "get on with it". Similarly, we remain well positioned in the cluster sequencing processes through Peterhead in the Scottish cluster with options for Keadby through the East Coast or Viking clusters. Ultimately, we have a range of exciting options in a range of technologies, all with robust industrial logic consistent with national net zero ambitions.

I'll now hand over to Alistair.

Alistair Phillips-Davies

Thank you, Martin.

Let's now turn to our networks businesses, starting with the transformation underway in Distribution, which has a crucial role in enabling increased electrification and digitalization of the economy. As a result of digital and load growth, we expect to see an increase in investment that stretches out for at least two decades, similar to the growth that is currently being seen by Transmission, which I'll come to shortly.

The regulator is beginning to understand the need to adapt the connections regime in parallel, and we are pleased with how it is starting to work with us to embed strategic net zero first investment into the regulatory framework. This is encouraging from both a societal and business perspective, and we expect to use the uncertainty mechanism process extensively as growth comes through ahead of ED3.

Building more generation capacity is not the only solution to meeting our electricity demand. We continue to lead the way on delivering demand-side system flexibility, securing 700 megawatts of flexibility this year. And to maximize these opportunities, there is an extensive business transformation underway as we optimize data and processes ahead of future price controls. Ultimately, we aim to unlock future value and distribution by building a smarter, more agile and more technologically advanced business that can thrive at the heart of net zero.

Like Distribution, Transmission stood up to the 10 named storms well with continued strong performance in the Energy Not Supplied incentive. Excellent project delivery continues for flagship RIIO-T2 projects, making strong progress. The pioneering HVDC link to Shetland is in place and in testing, despite difficult subsea conditions, with a view to energization during the summer. Similarly, all circuits on the first phase of our 400 kV Northeast Scotland reinforcement are now energized.

We are well on course to deliver our RIIO-T2 goal of connecting 10 gigawatts of renewables and powering greater than 10 million homes with green power by 2026. And this record of delivery is a good launch pad for the next significant step-up in growth. The Large Onshore Transmission Investments and Accelerated Transmission Investment, or LOTI and ASTI programs as they are known, will see around £20 billion of critical grid upgrades delivered.

These are all must-build transmission projects, no matter of the energy scenario considered, and delivery is already included in our license conditions. And as I said earlier, crucially, we have largely locked in the supply chain to support this high-quality growth.

LOTI will connect the rest of the main Scottish island groups with the Mainland for the first time ever with construction programs due to start in 2024. There remains some final consents required from the Scottish government for Argyll and Skye and more pace is needed here. But the regulatory need is clear, and we remain confident of positive news soon.

The 8 ASTI projects also all have a clear regulatory need and with the onshore projects at various stages of preplanning, we are currently undertaking one of the largest public consultation processes ever seen in Scotland. The importance of this consultation cannot be overstated. While the need for the projects is overwhelming, we must ensure they are delivered in a way which is sensitive to the views of local communities and minimizes impact.

At the end of last year, we were pleased to announce a range of changes to our plans following feedback received during consultation, and we'll continue to listen and adapt plans where we can to best balance the need of all stakeholders. With community benefit now being brought forward by government, exciting investments in manufacturing facilities are likely to be unlocked.

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Offshore, our ASTI projects are all progressing well, too, and the EGL2 subsea link that will connect Peterhead to Drax has now been approved for over £4 billion of spend. We've also made good progress on EGL2 in the year with marine licenses and other key contracts secured as we target completion in 2029. And this is all high-quality growth which, when combined with distribution, means we're looking at greater than 15% networks rev CAGR across the NZAP Plus period.

With their steady regulatory earnings and high-performing infrastructure, electricity networks have long been the sleeping giant of the energy system, but the impending surge in demand for them has changed all that. The world is increasingly appreciating the crucial role they will play in the future.

Transmission is leading the way with operational excellence and growth prospects, but we expect Distribution to follow suit with its own transformational investment needs. Together, they are key enablers of net zero and engines of growth for SSE, delivering sustainable index-linked earnings into the 2030s and beyond.

Indeed, we have already seen the potential for more than £5 billion of additional investment in Transmission being flagged under the system operators beyond 2030 plans, the second Shetland link at the heart of this. This is, I'm sure you'll agree, a world-class growth opportunity. And it's one of many.

SSE is facing a structural, generational growth opportunity, and we upweighted our CapEx plans in November to harness it, and the plan that's summarized on this page is our roadmap for powering sustainable growth. It is a fully-funded plan with the three pillars of renewables, flexibility and networks at its heart. It is agile, able to pivot capital to those technologies that provide the best balance between risk and returns and it is based on the business mix that gives us natural resilience to a range of scenarios.

Our investments show a laser-like focus on the Paris Agreement, and our clear science-based targets have helped support a record-low year for our carbon emissions. As Barry outlined earlier, these continued investments in essential infrastructure will grow EPS to between 13 to 16x compound annual rate over the period to 2027 as existing capital projects are delivered over those years.

Finally, with annual dividend growth of between 5% and 10% to 2027, this plan also balances our commitments to shareholders with our ambition to invest more in the assets that will be needed to reach net zero.

And whilst today is mainly focused on medium-term growth, we're a long-term business with an eye on the future. We have remarkable growth in our core regulated networks businesses, a renewables pipeline with world-class opportunities in attractive markets and a range of flexibility options. We are on track to deliver sustainable value to 2027 and beyond.

So to conclude, SSE has put itself in the right place with the right assets at the right time. As you've seen today, we have a strong record of delivery with a balance sheet strength to pivot or upweight investment into attractive opportunities whenever they present themselves.

The resilience of the SSE group and our high-quality assets gives us the ability to create sustainable long-term value. And the wealth of organic options and capabilities in highly attractive markets means we have lots of opportunities for disciplined investment in future growth. It is, I'm sure you'll agree, a massive opportunity and a compelling story.

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Thank you, and we'll be delighted to take your questions now. And I'll hand over to the operator.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] We're now going to proceed with our first question. The question comes from the line of Rob Pulleyn from Morgan Stanley. Please ask your question.

Rob Pulleyn

Hi, good morning. Thank you. I'll just stick to one question because I'm sure there'll be lots and I'll leave the nitty-gritty to some other people. So given that a new theme has emerged this year for Power Systems and that is data center demand, may we ask SSE's thoughts on the subject and whether there is a potential beneficiary for the company? And if so, how? Thank you very much.

Alistair Phillips-Davies

Okay. I'll start and Martin may add something as well. I think we've all seen reports of AI-driven search requiring something like 10x the power of non-AI-driven research. That's obviously a clear tailwind for our businesses. I think generally, since the Ukraine war, we've seen consumption of energy across Europe come down, but I think that's coming back strongly, and we see that particularly in Ireland.

And in Ireland, we're, at the behest of the Green Minister, building emergency generation there to try and keep pace with demand for things like data centers, which are obviously powering much of this change. And indeed, the business over there recently signed a contract with Microsoft.

So I think there are real tailwinds for us around demand. And I think AI is part of that. I see that certainly in networks that will give us an opportunity there. And Martin, I don't know whether you want to add anything?

Martin Pibworth

Yes, I mean there's been a couple of interesting reports just this week, actually. So one report talked about EU power demand maybe up 40% on a combination of things in the next 10 years, but obviously, including data centers and AI requirements. There was another report I just saw yesterday actually talking about the possibility of tech companies maybe paying premiums to access security supply and green megawatt hours. And I think we're starting to see some of those trends coming through in some of the conversations we're having.

I guess the interesting part of this is, firstly, it's constructive from a macro perspective. Demand, that's going to be good for the pricing of products we ultimately sell. But also on a more specific basis, we're engaged in conversations with multiple companies in in particularly GB and Ireland about the potential for writing CPPAs for those tech companies to cover off their increasing demand use. And ultimately, that's got to be good for us in terms of getting our projects away and getting good remuneration underneath potential newbuild additionality. So we see it as a positive.

Rob Pulleyn

Thank you.

Operator

A question from the line of Mark Freshney from UBS. Please ask your question.

Mark Freshney

Hello. Thank you for taking my questions. I have two. Firstly, on Dogger Bank, we've seen, working offshore at your peers, costs can vary, quickly escalate as the cost of that marginal day of a vessel is extraordinarily expensive. So my question is, how confident are you that the EUR3.2 billion in the first half 2025 start date for -- or completion date for Dogger, A, is -- are the right numbers?

And secondly, a question also for Martin, I guess, is just on the thermal fleet. I mean you've got an immense number of very short-duration batteries coming on with capacity agreements by 2028. Demand is weak, notwithstanding AI. I mean, is it -- you've remained convinced of the value of these assets, but clearly they've had a big downgrade. What gives you confidence that these assets can make good money, better than the minimum £200 million, in the future?

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Alistair Phillips-Davies

Yes, sure. Okay. Well, we've only just said it, so hopefully we still remain very confident in Dogger Bank, but I'm sure Martin will provide a bit more color.

Martin Pibworth

Yes. So maybe, Mark, let's start with the Dogger Bank supply chain point. I mean, obviously, there's a lot of things that go into project economics and CapEx moving around on major complex projects out to sea won't be a great surprise. And you're right, other companies have obviously reported the same.

We have always said that, for Dogger Bank, we have taken a cautious approach, allocated correct risk contingencies and risk plots to the projects, which reflects our very deep experience as the complexity of these projects elsewhere. And that continues to stand for Dogger Bank. And obviously, there's also lots of other ups or downs within the project, not least including the fact that we locked our financing it at 2.5% and did sell the indexation. So we have other benefits coming through that entire project.

The key point is we have an experienced team delivering a complex project. We've outlined today how we expect that project to proceed. And despite all of the different variances that we've reported, we are still projecting returns, with confidence, will be mid-equity project returns -- mid-teens, sorry, mid-teen equity returns, which is exactly what we said when we took FID three years ago.

And then on the Thermal question, yes, I mean, just on Thermal, I mean, essentially, there's four income streams for Thermal. There's the capacity mechanism, which clearly values are rising as we go forward. And indeed, in the T-4 mechanisms for GB and Ireland, we have secured over £500 million of income. So that's locking in firm value there.

Then there's the intrinsic spark spread, which is the value of just running into -- and hedging into normal market conditions. Clearly, that's fallen a bit, which is behind some of the numbers you've seen today.

But also, there is -- the third income stream and the fourth income stream are the option value, the flexibility you refer to in your question, and the balancing mechanism revenues we can make out of those plants. They are the least bankable elements of any kind of Thermal asset income model. And therefore, we've kind of guided essentially to a floor of what we can see that is the intrinsic but cognizant of the fact that that option value can expand very, very quickly.

And I think your question is, do we see some of that flexibility being outcompeted by other batteries? I would point to a whole bunch of other things that are happening in the market. Firstly, we're seeing, obviously, the demand lift we talked about in the first question with Rob.

Second, as part of that, we're also seeing a change in price elasticity and normal usage, which is constructive. We're expecting clearly coal closures as well over the next two, three, four years across Europe. There is obviously a dependence upon nuclear availability in France, which has slightly been unreliable in the past.

And on top of that, in just GB, we are dependent upon the reliability as a country on about 17 gigawatts of F-class CCGT fleets, which is coming kind of, if not towards the end of its life, has certainly been around for a long, long time. And so, in those market conditions, there is clearly the possibility of dynamics which require an increased response from our flexible fleets, which is why both Barry and I made it so important to point out the significance of our volume and indeed the reliability of that flexibility, should it be required by the market.

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Mark Freshney

Okay. Thank you.

Alistair Phillips-Davies

Thank you, Mark. The next question please, operator?

Operator

We're now going to proceed with our next question. The questions come from the line of Deepa Venkateswaran from Bernstein. Please ask your question.

Deepa Venkateswaran

Thank you. I have two questions. The first one is actually a topic we've not discussed in a long time, which is Customer Solutions. So you've had a strong performance this year, and you pointed to similar levels in the future. Can I ask what was the assumption in the previous plan? And implicitly, how much is Customer Solutions kind of offsetting the downgrade in the thermal earnings? It from the £500 million average to £400 million. Can you just help us understand what you were resuming before? And how much is the upgrade?

And secondly, just on FY '27, Barry, if I may just ask you a question, so what is included in that guidance and what's not? I know you've highlighted that there's two gigawatts of projects yet to be FID. But realistically, how much of that can come by FID? Could you give us an idea of what are the upsides if you include the two gigawatts and presumably those two gigawatts are included in your capacity target or some portion of that is included in your capacity target and output target for '27? Maybe if you could just elaborate on that? Thank you.

Alistair Phillips-Davies

Okay, Deepa, just to repeat your questions, because there was some slightly poor sound quality there, so I think the question was customer profits are up and that Thermal profits are down, and how much can that make up for Thermal profits? I think that was the first question. And then the second one was around the last portion of renewables, which are in our targets for financial year '21. And I suppose one of the key things there that I'm sure Barry will cover, because he'll do both of them quickly, is how much money or how much profitability is really coming from those last few megawatts that get delivered at the tail end. Is that fair -- is the questions?

Deepa Venkateswaran

Yes. Thank you.

Alistair Phillips-Davies

Thank you.

Barry O'Regan

Look, in terms of the renewables projects, that last couple of gigawatts, in reality, that's all very much back-ended. So if that comes into the plan, it will be very much back-ended into the back end of '26/'27. I think the key thing I'd call out is to get in -- for us to deliver in the 175p to 200p range, we do not need all that -- all those projects to come through. You can see, in the back of the appendix, where we have a number of projects in late-stage development, we will expect a number of them to come through, but we absolutely do not need all them to come through. And ultimately, all those projects will need to meet the appropriate hurdle rates to come through, but that doesn't impact whatsoever the 175p to 200p guidance.

In terms of the Customers' business, it's probably tens of millions higher maybe than the original plan. So it's not a natural -- a huge offset against the Thermal piece. I think, when you look at '27, the big movers, Deepa, are in the transmission business, clearly, where we have the opportunity to invest a lot more into that business, which we called out the £2.5 billion additional asset spend coming through where we've agreed to projects with the regulators, supply chains in place and with all that fast money and return on RAV coming through. In those projects, obviously, we're building the renewables capacity. So our output for that will be coming through as well.

And then the tax and the capital allowances, clearly that's a big upside when that capital allowance was extended from '26 into '27, given there's an overall lower tax rate as you go out. So I think those pieces are much more important when you look at the '27 than the customers' thermal mix.

And maybe the last point I'd call out to '27 is the quality of earnings. As you look at that '27 number now, there's a lot more coming from the predictability of the Transmission business as opposed to the merchant pieces.

Deepa Venkateswaran

Yes. Okay. Thank you.

Alistair Phillips-Davies

Thank you, operator. Next question please.

Operator

We're now going to proceed with the next question. And the questions come from the line of Ajay Patel from Goldman Sachs. Please ask your question.

Ajay Patel

Good morning and thank you very much for the presentation. I wanted to ask a little bit more on the guidance on '27. So if you look at the changes, your Transmission profits, if you take into account that the shape would be significantly up for '27, Thermal is a bit down, but there's a tax improvement of around 4% on the effective tax rate. Consensus sits around the bottom end of your range of £1.75 to £2. I'm just thinking, with all the changes that you announced today, does that look conservative? Because it feels like the range of outcomes here could be acquiring a large amount of that guidance range that you have.

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I'm just wondering. Is the top end even possible at the moment? Or do you see the whole range as possible, depending on the outcomes on current market conditions? Any sort of color around that to help maybe focus and give a sense a little bit to what you said this morning?

And then just on '25, there was a significant step-up in revenue on the distribution side of the business coming into this financial year. I just wanted to understand how much of that drops through to profit, because it seems to imply maybe a bit more than the 2x number that you've guided towards. Given it's quite a key variable to the earnings overall, any sort of color there would be really helpful.

Alistair Phillips-Davies

Okay. Thank you. I'll let Barry go and then I'll give any business commentary as well.

Barry O'Regan

Thank you. I just want to do the FY '25 Distribution one first. I think what we're seeing is at least 2x overall profits in the year. So I think -- so that hopefully will give you some comfort in that. So looking into '27, so I think the key point is we keep -- we're keeping the 175p to 200p guidance. We're extremely comfortable in that, updated the power price, base load price from £85 to £65. But what we're saying is we've now baked in that full upside from Transmission, the tax coming through as well. Even when you look at the Thermal business, it was always underpinned in '27 by a large capacity mechanism of over £300 million as well.

So I think the key thing for me as I look out to '27 is that the quality of the earnings, I think, has improved. We now have much more coming through in that predictable transmission business as opposed to coming through in the merchant piece. So that's certainly how I look at it. Clearly, of course, there's potential to outperform that, depending on where are market conditions at the time, whether -- in terms of additional investment opportunities we may have as they come through. But we remain very confident in that 175p to 200p.

Alistair Phillips-Davies

Okay. And I think I'd just say, from a business and operational perspective, Barry is managing the risk and counting the cash as it comes in. Martin and I are going to be heavily focused on delivering towards the top end of that and making sure Barry's got a smile on his face at the end of '27. There's no doubt about that.

And just on the Distribution, given that [indiscernible] share of distribution, I can say, although costs may be up a little bit, I'd be expecting Chris and the team there to see a big proportion of the revenue increase drop through to the bottom line.

Ajay Patel

Okay, thank you very much.

Alistair Phillips-Davies

Thank you. Next question please, operator?

Operator

We are now going to proceed with the next question. And it comes from the line of Jenny Ping from Citi. Please ask your question. Your line is open.

Jenny Ping

Thank you very much. I've got a couple of questions, please. Firstly, just in terms of the '26/'27 target and the assumptions that goes behind it, can you talk a little bit about what is the ROE you assume to get to that £500 million ET number, given that we don't really have any clarity on ED3 yet? And you talked about accelerating schemes on fast money. What sort of fast-slow money split do you assume?

Secondly, on renewables, I was intrigued that you have got to 19% CAGR only 1% lower than what you had before based on £65 and the previous was a £85 power price. So what's the offsetting moving part, effectively, to get your CAGR to remain globally unchanged? And then thirdly, just in terms of near-term guidance, I guess, I mean, looking at your quality guidance, is it fair to assume that earnings are going to be relatively flat year-on-year '24 and '25? Is that a usable assumption?

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Alistair Phillips-Davies

Look, I think it may be about -- but just there's a little bit of poor quality there. I'll just check. Your '26/'27 was around t- ROE and Transmission and what we're thinking given that there's going to be any price control on returns. Next one was £65 to £85 on megawatt hours and what's making up for that, which I think Barry said is kind of Transmission. And then the near-term guidance, '24, '25, I think Barry will probably tell you what he's already told you what we told you in the script rather than just give you the number to plug into everybody's models. So I'm sure people obviously feel that would be easier. But I think giving you color on the businesses is what we're trying to do here. But Barry?

Barry O'Regan

Maybe just to deal with the Transmission one first, so we're saying, on average, £500 million per annum. Clearly, you wouldn't expect us to get into the detail of the assumptions we're making for RIIO-T3, which would be -- the first year would be in '26, '27. But what I would say is, if you look at the CapEx profile, it very much ramps up towards the back end and obviously then what assumptions you make on fast money, et cetera, coming through. So you really see -- you can see -- you can expect the shape of the profits from that.

In terms of the renewables CAGR going from 20% to 19% and the power price going from £85 to £65, I think there's a few couple of pieces I'll call out. One, a lot of the renewables projects don't have -- aren't exposed to merchants. So obviously, for the CfDs, you have the refits, you have the rocks et cetera, coming through there. Also, before the price was £85 base low price, clearly, wind capture price would have been slightly lower than that. But ultimately, anything above £75 was getting hit by the energy generator levy, which probably took away about half of the upside just from that tax alone before corporation tax. So the overall impact wouldn't be as big as you'd expect.

And then your last question was, well, is guidance flat? I think what I'd say is, look, we try to be as helpful as we can in terms of giving directional guidance in each of the individual business units. Clearly, we're expecting a big upside in distribution and renewables, Thermal clearly coming down, given where the market is. But we've just delivered a very strong set of results this year, and I remain very confident we'll deliver another set of strong results in the current financial year. So I think we'll leave it at that.

Alistair Phillips-Davies

I think that's pretty clear, Barry. Thank you, Jenny. Operator, next question, please.

Operator

Sure. We're now going to proceed with our next question, and it comes from the line of Dominic Nash from Barclays. Please ask your question.

Dominic Nash

Good morning and thank you for my questions. I've got -- I have three. And the first one, kind of a follow-up from Jenny's, for '24, '25, could you just give us a view of what your view on the consensus EPS number is out there, please? And could you also give us an update on whether you're going to be planning to sell any assets in the coming sort of 12 months as part of your sort of sell-down portfolio?

My second question is on renewables. It's clearly lower wind this year, last year, the year before. The question I've got is in -- are you starting to factor in any potential sort of global slowing or the impacts of blocking, et cetera, in your sort of medium-term renewable plans?

And the third one on the sort of longer-term programming until 2030, which is indeed what it's called, I think it was £58 billion of CapEx was proposed for further transmission projects. Is it possible to give us sort of a view on what sort of number is likely to be within your areas? And how much of that is core within the LOTI and ASTI program? Thank you.

Alistair Phillips-Davies

Yes. Okay. I think we've been fair enough on numbers. So, look, I think consensus is around about £160 million or just over £160 million. Those are the kind of numbers that I've seen out there. It's bounced around that kind of level. So around about £160 million, I think, is where consensus is, or just over.

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Renewables, Martin, I'll just deal quickly with. So yes, £58 billion of T projects. So I think the detail, if we issued the pack properly, is on Slide 56 or 58, that Martin and the team have kindly produced. So there's £20 billion of LOTI and ASTI projects that we expect out to 2030. And then on the 19th of March this year, there was an announcement from the ESO around some initial work on the beyond-2030 figures.

The biggest part of that was the Shetland link, which led to Sumitomo breaking ground on a new £350 million cable factory last week in Scotland that will create quite a lot of jobs up there. And our share of that is a little over £5 billion. So therefore, I don't know exactly whether I've reconciled the numbers right, but I suspect, if you're £58 billion, we're probably looking at either the £20 billion or the £25 billion. But in any event, the £20 billion's in license conditions and the £5 billion, we have a high degree of comfort that it will be included. And we have letters from Ofgem indicating that we can go out and secure supply chain on that £5 billion of spend as well, which we are now doing. And that's obviously why Sumitomo is now building their new factory. And then the new...

Barry O'Regan

Disposals there?

Alistair Phillips-Davies

Oh, disposals, sorry, yes, that was a part of what -- disposals, no. We've got nothing particularly planned. But having said that, you never know. Recycling capital from assets I think is something that we've done very successfully. And Barry will know all about that, having done all of our big deals over the last decade or so. And so, if there are opportunities, we may take it, but it will be recycling and it'll probably be more opportunistic. There's nothing currently baked into our plans or thoughts. We're very, very much focused on disciplined delivery and growth.

Martin Pibworth

Wind output, we do an annual review of our P50 production estimates. This year, we also engaged a third party to help with that. We updated assumptions based upon whether we're seeing plant performance. And as you know, the last four years have seen reduced output. The review concluded there was no material change to any of them, any of the assets, on an asset-by-asset basis.

And actually, the review also concluded, to your point about global trends, that we believe using long-term 30-year wind speed averages is still a better estimate of accurate performance of plant over its long-term life. So we're comfortable on that. But of course, we will continue to do annual reviews.

Dominic Nash

Thank you very much.

Alistair Phillips-Davies

Thank you. Next question, please, operator.

Operator

We're now going to proceed with our next question. And the questions come from the line of Peter Bisztyga from Bank of America. Please ask your question.

Peter Bisztyga

Yes, good morning. Thanks for taking my questions. I've got two please. Firstly, just clarifying a couple of things on guidance, if I may, I know you're not giving specific guidance for this year. Could you at least indicate whether you expect EPS to be up year-on-year? And does that sort of still hold true in your sort of low-case scenario for Thermal? And on '26/'27, you seem to sort of be indicating that, net-net, things are better than last November. So does that mean you're tracking above the midpoints of your guidance for that year? So if you could just clarify those, that would be helpful.

And then a question on sort of elections. If we work on the sort of base case that Labor are going to win, any kind of material changes that affect your business that you're hearing about from your sort of conversations behind the scenes? Obviously, GB energy supply is one proposal by Labor. And I'm just wondering whether that could actually become a potential competitor to you for new transmission projects? And maybe also, do you see anything on taxation that could be a risk, for example, an end to the full expensing for example? So any insights there would be very helpful.

Alistair Phillips-Davies

Okay, I'm not sure Barry is going to necessarily narrow his range or improve his clarity of his guidance. But anyways, you can try.

Barry O'Regan

Look, I think -- look, all I want to say on guidance for FY '25, Peter, is that, look, we've been as helpful as we can. We've given a lot of really strong directional guidance in each of the business units. So I think that should be -- there's plen- a lot of information in that. But I will reiterate we are absolutely confident of having another strong year of results in FY '25.

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On '26 and '27, look, I think the key point I think we've probably mentioned now a couple of times is that the quality of earnings looking into '26, '27, underpinned now by more regulatory earnings as opposed to on the merchant side, is giving us the confidence that we're going to be well into that range of 175p to 200p.

Alistair Phillips-Davies

Okay. Great. Thanks, Barry. Just on Labor conversations, yes, we do speak to political parties of all persuasions. On GB energy supply, I think what I've heard and what I understood about what's been said is that they're essentially looking to provide funding for newer technologies for those things that are struggling to get support in the market.

They're also very focused on crowding in investment rather than crowding out investment. And so from a competitive point of view, I think there's possibly more opportunities, if that holds true, for us to invest with them on projects rather than to compete.

And to be honest, with any government, we've competed with EDF, Vattenfall, NL, all sorts of people in this country. We don't have any particular fears about that. I think we've got a great team, we've got a great set of projects, and we'll continue to develop things. So as I said, whatever the outcome of the election, we will work with whichever government's there to deliver their targets for 2030 and 2035 and beyond.

On taxation, I've heard nothing that indicates that there will be a reversal of the full expensing. I think anybody who seeks to have strong investment -- and my understanding of the opposition's current policies is that they're more ambitious for 2030, that they want to move a little quicker. And therefore, they want to drag that investment in. They want to get more investment into the U.K. and provide -- make sure the U.K. is the best and easiest place in the world to invest. And if they're going to do that, I would suspect that they'd want to retain that taxation position and bring in the factories and other things that we see.

Martin, you may have some other comments on Labor.

Martin Pibworth

Yes. Actually, just on policies, if I may, I mean I still think we see strong political consensus for net zero across the piece, regardless of who's in governments. Clearly, maybe, for some technologies, offshore wind, carbon capture hydrogen, maybe long duration storage, things are a little bit behind where we'd ideally like them to be. We said that in our presentation.

And regardless of net zero, I mean, clearly, the U.K. is going to have to respond to an increasing demand curve and also a slightly aging existing fleet. So I think, almost regardless of the politics of it, I mean, any government is going to have to look at investing in some of the places where we have obviously possibilities put forward.

Peter Bisztyga

Great. Thank you very much.

Alistair Phillips-Davies

Thank you. Next questioner, please, operator.

Operator

We're now going to proceed with the next question, and it comes from the line of Harry Wyburd from BNP Paribas Exane. Please ask your question.

Harry Wyburd

Hi. Morning, everyone. Thank you. So a couple of short ones because I know we've covered a lot of ground already. So firstly, just given the better earnings mix by FY '27, does that have implications for the balance sheet? And from a rating agency perspective, would you say you feel more comfortable in your credit metrics and that gives you perhaps a bit more headroom than you might have had in last plans?

And then a second one on this whole PPA and power demand point. Given the U.K. has got a very arguably generous regime for CfDs or inflation linkage and long tenures, what would it take for you instead to sell your power to a corporate? Would you be -- what would be most attractive to you? Would it be an upfront premium, which probably make projects more EPS accretive?

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Or would it be a longer tenure than a typical commercial PPA? Or do you care about the off-takers creditworthiness, or is there something else? I'm just interested if you've sort of considered that, if you're going to sell more on the corporate PPAs, what would be different versus selling on CfD? Thank you.

Alistair Phillips-Davies

Okay. Sure. Well, look, Barry is our balance sheet guru never had over to Martin.

Barry O'Regan

Harry, just on the debt mix and the rating agencies piece, look, we -- across the plan, our net debt to EBITDA is in the 3.5x to 4x. As we get out to '27, we've always said we've got to 4.5x to be strong investment-grade rating. Clearly, you've called out there will be more regulatory earnings in that mix, so obviously it puts us in a strong position in terms of conversations with the agencies.

But look, there are conversations with the agencies for a future day. All I'm saying -- all I'd say is that we remain confident in our current credit rating. And when you look at the net debt to EBITDA, that's comfortably covered as you look out to '27.

Martin Pibworth

And on CfD, it's quite a difficult question to answer because I think it probably depends upon market jurisdiction, technology, et cetera. But it's essentially -- I mean, we see CPPA demand rising. We see value in terms of different term lengths or price possibilities they could offer. Of course, we're mindful that it is a slightly different risk profile, and that has to obviously be priced in as well, including not just you mentioned credit but also balancing and who takes some of the risk on that. So all of those things are probably kind of wrapped up in each bespoke negotiation or discussion we have with potential buyers. And we've announced one in Ireland over the last year, and we hope to do several more as we go forward.

Harry Wyburd

Okay. Thank you.

Alistair Phillips-Davies

Okay. Thank you. Next question, operator, please.

Operator

We're now going to take our next question, and it comes from the line of Charles Swabey from HSBC. Please ask your question.

Charles Swabey

Hi, good morning, everyone, and thank you for the presentation. I've got two questions. First, if we take your comments on having a more selective approach to renewables and then if we look at the clear growth options you have on the Transmission side for the next decade or so, would you be open to increasing regulated networks' CapEx above the 55% beyond for year '27? That's the first question. And the second one, on SSE Thermal, could you clarify if we should think about that £200 million being the low case for the full year '26?

Alistair Phillips-Davies

Okay, two good questions. I think we have a great business with these opportunities. We have to pivot it back and forward. I think the pivot has just been natural. If we did have to go above 55%, we would. If the returns -- risk and return balance is better in networks and all the opportunity's there, then we wouldn't be afraid to take that.

I think, at some point, we will see both renewables and flexibility swinging back into fashion, and we'll see more investment in that, particularly in the U.K. Whatever flavor of government, I think, comes in at the end of this year, early next year. I think we'll be focusing on both of those things. I would expect to see potentially a bit of a jumbo round of offshore wind next year, given that this year is probably going to be slightly at the lower end of volumes. So I think we'll see a swing back, but we've seen other companies go up to about 2/3 networks. I don't have a problem.

The key thing for us is about disciplined approach to where we invest our capital and then delivering the thing, basically. So we make returns and that's what it comes down to. And then Thermal P&L?

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Barry O'Regan

Yes, I think, Charles, your question was FY '26, if I'm not mistaken. So, look, the only guidance we have there for Thermal is an average. And obviously, for this year, we have a floor of at least £200 million. We've got an average of £400 million across the piece. Clearly, FY '24 was higher and FY '27 will be underpinned by the very high-capacity mechanisms, but it will be at least the £200 million in '26 as well. But we're not giving specific guidance on that, not yet.

Alistair Phillips-Davies

But I think you said low case, Charles, and so...

Charles Swabey

Yes, at least.

Charles Swabey

Yes. Great. Thank you very much.

Alistair Phillips-Davies

So it's a low case. The next question, please.

Operator

We're now going to take our last question. And it comes from the line of Pavan Mahbubani from JPMorgan. Please ask your question.

Pavan Mahbubani

Hi, team. Good morning. Thank you for taking my questions. I've got three, please. Firstly, you've spoken before about the U.K. carbon price being dislocated from Europe. When do you expect this scenario? And do you think that the current government is actually concerned about this?

Second question, you still talk about committed CapEx getting you to 95% of your guidance range for FY '27. Can you refresh that for us? Do you think, with your 80% of CapEx committed now, you're comfortable with the range? Or do you need to see a contribution from some of the uncommitted CapEx?

And my final question, a bit bigger-picture, can you talk about what you would like to see from the sector-specific methodology decision on T3 in June? And then what details do you expect to see apart from, of course, initially the cost of capital?

Alistair Phillips-Davies

Sure. Martin and Barry may, I think, hi Pavan.

Martin Pibworth

I have -- yes, so on carbon, I mean, essentially, what we're describing here is an EUA market which is incredibly mature, has a well-understood policy framework behind it and proven mechanisms to make sure the market delivers what policymakers are looking for. In the U.K., we don't yet have that because it's relatively new. We have no supply adjustment mechanism. And therefore, there's a little bit less, I guess, trading confidence out there and certainly less liquidity. Over time, what we have said is we expect the gap between those two prices to narrow. And indeed, given kind of the intervention of C-bands, we would find it slightly surprising if that does not occur.

In terms of time frame, no, you're right. I mean your point is about is government policy going to come into direct supply adjustment mechanism to do that? We have obviously no inkling to the timing of that. It's just a rational assumption we would make.

Barry O'Regan

Yes, on the committed CapEx, so the committed CapEx was 65% last year. It's now up to 80%. Clearly, we're a year closer. And look, as each project -- as the projects come forward and go to FID, we continue to expect that number to go up.

And as I said earlier on to the question on renewables, we do not need all of that uncommitted CapEx to hit the 175p to 200p EPS. In reality, a lot of our projects, especially in Renewables and in the Thermal side, they are very much back-ended towards the back end of the March '27 time line. So they're making a pretty minimal contribution by the time you get there.

Alistair Phillips-Davies

Okay, sector-specific methodology, I'm going to have to defer to Rob and my Transmission colleagues to give you more detail. But I think, at a high level, what we've seen is that Ofgem and government have lent into the whole agenda around building networks. We've seen significant acceleration of CapEx and future visibility of CapEx out there with things like the ASTI and LOTI programs. What we now need to see is movement in the right direction on returns. Returns for the current T2 period were probably at the lowest level that they could have been in the sense that that was a low point for where interest rates were and also risk-free rates.

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We saw them go up on a formulaic basis when you've got rounds of distribution. And I think, as we go forward, they have to also take account of investability, which is a sort of term that Ofgem themselves invented.

I think if we -- if I listen to people talking, people who are probably important to this talking, internationally, they're talking about 10% returns on a nominal basis, sort of around about 6% core, 3% for inflation, 1% for possible outperformances. We would have views that that number should be above 6%. I don't know whether Ofgem are going to produce something or whether they're just going to try and narrow their range. We're having discussions with them.

I think the key thing is that we having gotten in such a good position for the sector where we're doing amazing things for the U.K. economy like bringing Sumitomo here to build factories and there are many other possibilities creating really good jobs here. We've got to make sure that we don't spook the market. We need investors to be assured that, for companies with £5.7 billion worth of RAV, where people are looking for us to invest £25 billion over the next decade or £25 billion plus, that is investable. Those businesses will be cash flow negative.

And therefore getting that number and getting the language right is important. We don't want to spook the horses here. If we looked at the juxtaposition with the water sector where it looks very, very difficult to get new investment into that place, I think we're in a much, much better place in the electricity sector. So I think it's an important document in terms of signaling where the regulator is and we're where we need to be to make sure that that capital flows into that business and that we can take advantage of all the supply chain we've locked in and all the projects that we're working so hard on to build the energy system we need and to deliver jobs and other things that this country will benefit from in the longer term.

So I think that actually concludes all the questions. Operator, I'll just check again in case there's anybody else.

Operator

We have no further questions at this time. Thank you.

Alistair Phillips-Davies

Okay. Thank you very much. Okay. Thank you all for your questions this morning. With that, I'll draw the presentation to a close.

I'll finish by noting that this has been a year of delivery, resilience and growth for SSE, which has seen us deliver adjusted EPS of 158.5p, at the top end of our pre-close guidance. We've shown the resilience of our business model while making good progress on our large capital projects and reaffirm we're thoroughly on track to meet our financial year '27 adjusted EPS target of 175p to 200p, even after accounting for lower forward prices, as we continue to grow the business through our NZAP Plus. It just remains for me to thank our moderator and to look forward to speaking with many of you in the coming weeks as we do our road shows and other events. Take care and have a great day.

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