

R/32

Friday 22 July

FIRST STEPS TOWARDS IMPLEMENTING TRANSMISSION PRICE CONTROL

Views are being sought on the key issues surrounding the forthcoming electricity and gas transmission price control review which will take effect in April 2007.

This is the first time that energy regulator Ofgem has been able to review the price controls for all gas and electricity transmission businesses at the same time which will provide consistency in approach.

The consultation identifies significant challenges including uncertainty about the levels of investment needed to allow networks to develop over the next decade in response to changing customer demands – and there are large shifts taking place in flows of gas and electricity across the networks resulting from new electricity generation stations, renewable generation sources, gas storage, interconnectors and Liquefied Natural Gas (LNG) Terminals.

The price review will balance the need for continuing investment in networks to maintain levels of reliability required by customers against the need to protect customers from unnecessary or inefficient investment in the network, or inefficient operating costs.

This review takes place against a background of significant change for the UK transmission networks, including the recent sale by National Grid Transco (NGT) of four of its gas distribution networks, the growth of renewable generation and the increasing need to import gas supplies.

ends

Notes:

1. At the same time as this consultation, Ofgem has published a separate consultation document, seeking views on plans to 'roll-over' for one year the present price control affecting the NGT subsidiary, National Grid Company which was due to run until April 2006.
2. The companies involved in the transmission price control review will be, in electricity, NGC, ScottishPower Transmission Ltd (SPTL) and Scottish Hydro-Electric Transmission Ltd (SHETL) and, in gas, the NGT subsidiary, Transco.
3. One of the functions performed by Ofgem is to set a limit on the revenue that can be recovered by gas and electricity transmission companies. Revenue restriction or 'price controls' are needed because these companies retain an effective monopoly on their licensed activities.
4. The initial consultation document is the first of five planned by Ofgem for the review, with options for additional documents to be published if required. The consultation process will result in the publication of a final set of proposals for each transmission licensee towards the end of 2006.
5. The current timeline for the review is as follows:

Initial consultation	July 2005
Second consultation	December 2005
Initial proposals	May/June 2006
Draft proposals	September 2006
Final proposals	November/December 2006

6. Ofgem is the Office of the Gas and Electricity Markets, which supports the Gas and Electricity Markets Authority, the regulator of the gas and electricity industries in Great Britain. Ofgem's aim is to bring choice and value to all gas and electricity customers by promoting competition and regulating monopolies. The Authority's powers are provided for under the Gas Act 1986, the Electricity Act 1989 and the Utilities Act 2000.

For further press information contact: Richard Hunt: 020 7901 7158; Chris Lock: 020 7901 7225. Out of hours contact: 0781 8457969 or 07766 511470