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FINAL PROPOSALS TO EXTEND NATIONAL GRID'S ELECTRICITY TRANSMISSION PRICE CONTROL

Final proposals have been published today (Monday) by energy regulator Ofgem for the extension of National Grid Electricity Transmission plc's (NGET) transmission owner price control for one year (from 1 April 2006 until 31 March 2007). NGET owns and maintains the high-voltage electricity network in England and Wales.

This extension will allow Ofgem to align the price control review dates for the companies that either transmit electricity on the high-voltage network or transport gas through the high-pressure pipeline system. An Ofgem review is now underway to establish a new five year price control for these companies, to run from April 2007 to March 2012.

Ofgem's proposals for the one year extension focus on operating and capital expenditure for 2006-2007, historical capital expenditure and cost of capital. Ofgem has adopted a simplified approach to developing these final proposals as they are only to cover a single year.

In particular, the capital expenditure proposals will allow NGET to invest £467 million in the transmission network next year, a significant increase on Ofgem's prior allowance of some £250 million available for 2005-2006.

The direct impact of Ofgem's proposals on customers is expected to be small as transmission accounts for about 3 per cent of a typical domestic customer's electricity bill. The proposals therefore amount to an increase of about 60 pence in real terms on the average annual domestic electricity bill.

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Notes to Editors

1. Copies of the document "Extending National Grid Electricity Transmission plc's Transmission Owner Price Control for 2006/07: Final Proposals" are available on the Ofgem website www.ofgem.gov.uk. Hard copies can be ordered from the Ofgem distribution centre on 020 7901 7116 or by email from distribution@ofgem.gov.uk
2. The purpose of the proposals is to give effect to Ofgem's decision to align the price control review dates for the electricity and gas transmission companies. This requires a one-year extension to the current price control for NGET, which ends on 31 March 2006. The full review of electricity and gas transmission price controls will then be implemented in April 2007.

3. Ofgem's proposals for the one year extension have focused on four key areas:

Capital expenditure

- A capital expenditure allowance of £467 million for investment in the transmission network next year, a significant increase on Ofgem's prior allowance of some £250 million available for 2005-2006

Operating expenditure

- A controllable operating cost of £174 million (continuing annual savings of 2.5 per cent) and an allowance for non-controllable operating costs of £103 million

Historical capital expenditure

- Allowing for £295 million of NGET's projected overspend for 2001/2002 to 2005/2006 to be included in the Regulated Asset Value used for the price control extension

Cost of capital and tax

- A real post-tax rate of return of 4.4 per cent (equivalent to rolling forward the current allowed rate but with a separate allowance for tax)

4. Transmission charges account for around 3 per cent, on average, of consumers' final bills. Nevertheless, the impact upon individual consumers will depend upon how transmission network costs are reflected within charges. Some consumer groups may experience greater than average increases in transmission charges.

5. NGET owns and maintains the high-voltage electricity transmission network in England and Wales and although performance statistics show that the national grid was 99.9992 per cent reliable in 2004/05, an asset replacement programme and renewal work is necessary to ensure security of supply.

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.

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