

R/48

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CONSULTATION BEGINS FOR GAS DISTRIBUTION PRICE CONTROL REVIEW

The objectives, timetable and approach which energy regulator Ofgem is proposing to adopt in its gas distribution price control review have been set out in an initial consultation paper published today (Thursday).

The review follows the sale by National Grid Gas of four of its eight gas distribution networks - the biggest change to the framework of the gas infrastructure sector since privatisation in 1986. This change has important implications for the review as separate ownership of the distribution networks will allow Ofgem to make more effective comparisons between the businesses. It also creates a sense of rivalry between the independent management teams which Ofgem anticipates will lead to cost savings. The benefits of comparison will build up over time meaning savings for customers will result from future reviews.

This review is the first time that Ofgem will set a price control for gas distribution on its own. It will provide an opportunity to focus on the activities of the gas distribution businesses and the incentives created by their regulatory framework. Ofgem plans to explore what customers want from the businesses, so that it can better use the review to protect their interests.

The existing gas distribution price control will be extended for one year from April 2007, paving the way for a new price control from April 2008. An important output will be to put in place a cost reporting framework to maximise Ofgem's ability to pass back the benefits of effective comparison to customers.

In conducting the review Ofgem will also build on experience gained during the electricity distribution price control review for 2005-2010 and other reviews including the ongoing review of gas and electricity transmission.

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1. Copies of the document "Gas distribution price control review: initial consultation" 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. Ofgem proposes to hold an introductory seminar on the review on 11 January 2006. Parties wishing to attend the seminar can book a place by sending an email to GDPCRresponses@ofgem.gov.uk, no later than 3 January 2006.

3. In June 2005 National Grid Gas completed the sale of four of its eight gas distribution networks: Scotland, the North of England, the South of England, and Wales and West. The remaining four networks will be retained by National Grid Gas. National Grid Gas had to obtain approval from Ofgem and the Secretary of State for Trade and Industry before the sale could go ahead. In addition, safety cases needed to be accepted by the Health and Safety Executive.

4. The costs of gas distribution make up approximately one fifth of an average domestic gas bill.

5. 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.