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FLEXIBLE PRICE CONTROL IS NEEDED FOR ELECTRICITY AND GAS TRANSMISSION COMPANIES

The second consultation for the Transmission Price Control Review for companies which transmit electricity and gas has been published today (Thursday) by energy regulator Ofgem.

The review will establish price controls from April 2007 to April 2012, and represents an important opportunity for Ofgem to set controls which best meet its principal duty to protect the interests of consumers. This is the first time that the four electricity and gas transmission companies have been reviewed together, allowing common issues to be addressed.

The price controls will need to be flexible enough to allow the companies to meet the changing needs of their customers. These include significant shifts in flows across the gas network resulting from the decline of UK gas production and its replacement by imports. Changes in the electricity generation mix, particularly due to the development of renewable generation will also alter flows on the electricity network. A key focus for the review will be to develop incentives for timely and efficient investment in the networks to meet these changing needs. The second consultation seeks views on possible approaches to this.

A price control review was completed last year for electricity distribution (covering 2005 to 2010) and Ofgem's review of gas distribution price controls also began recently. Ofgem will, therefore, be looking to implement best practice and, where appropriate, ensure consistent treatment of common issues in both the transmission and the gas distribution reviews.

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Notes to editors

1. 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 restrictions or 'price controls' are needed because these companies retain an effective monopoly on their licensed activities. The second consultation for the Transmission Price Control Review follows on from an initial document published in July. The consultation process will result in the publication of a final set of proposals for each transmission licensee towards the end of 2006.

2. The current timeline for the review is below. The process includes options for additional documents to be published if required. In addition, workshops will take place for stakeholders and companies to discuss particular aspects of the review.

Second Consultation: December 2005

Third Consultation March 2006

Initial Proposals: June 2006

Updated Proposals: September 2006

Final Proposals: December 2006

3. This is the first time Ofgem has been able to review the price controls for all gas and electricity transmission businesses at the same time. This will provide a consistent approach to the comparison of the companies' performance in the review. To do this Ofgem had to align the price controls of all four of the licensees: National Grid Electricity Transmission (NGET), National Grid Gas NTS, Scottish Power Transmission Limited and Scottish Hydro-Electric Transmission Limited. The alignment required Ofgem to extend NGET's price control for one year from April 2006-2007. Ofgem's final proposals in relation to this can be found at www.ofgem.gov.uk

4. 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:

Chris Lock: 020 7901 7225, Mark Wiltsher: 0207 901 7006

Out of hours contact: 07766 511470