

**R/46**

**Monday 25 September**

## Transmission price control review September update

Energy regulator Ofgem today (Monday) has published updated proposals in its consultation on the price controls for the four monopoly electricity and gas transmission companies in Great Britain. The update builds on initial proposals made in June and introduces new measures to help promote more sustainable network development and safeguard consumers' interests at a time of rising investment in networks.

Ofgem's proposals will ensure the transmission companies are able to make the investment needed to maintain the existing high level of performance from their networks. Furthermore, the latest proposals – updated following a consultation in June this year - ensure the companies can meet the investment needs emerging from the growth of renewable generation and the need to import more gas.

"Our latest refinement of the price control proposals will ensure that the UK continues to get outstanding quality of service from the power and gas transmission companies at a time when the companies will be making heavy investment to connect vital new wind farms and other electricity generation plant. At the same time we are looking to add to our already substantial tool kit that protects customers against companies who might significantly under invest," said Ofgem chief executive Alistair Buchanan.

The capital investment planned under the updated proposals amounts to £4.5 billion - an increase of some £260 million since our June proposals. This increases to £5 billion once already agreed investment in electricity transmission infrastructure for renewable generation is added. In total, transmission investment under the current proposals is double that allowed in the previous price control. Furthermore, a new flexible adjustment mechanism will trigger funding for new investment in the gas and electricity transmission networks as customers need it.

Ofgem has continued to ensure that consumers benefit from efficiency savings, and has reduced operating and investment costs significantly from the companies' original forecasts. Overall transmission charges will increase by 6% as a result of these proposals but the impact will be small as transmission makes up only about 3% of household energy bills.

New proposals since the June Initial Proposals include:

- to encourage more sustainable network development with a new incentive to target leakage of sulphur hexafluoride – a gas used in high voltage switching apparatus which is a very potent greenhouse gas if released into the atmosphere;
- to safeguard consumers in the event that companies' investments fall substantially below their allowances, in particular in the area of 'discretionary' spend which is not related to demand for new connections. Ofgem has put forward ideas which include a 'safety net' that will trigger an automatic review if expenditure in this area falls more than 20% below allowance. This proposal works to strike a better balance between

giving the companies scope for investment while protecting consumers from the prospect of that investment not then being made.

Ofgem's final proposals for transmission price controls will be published in December 2006.

### Notes to editors

1. Ofgem is reviewing the price controls for the four electricity and gas transmission companies which own Britain's high-voltage national networks and the national trunk gas pipelines:
  - National Grid Electricity Transmission (NGET)
  - National Grid Gas NTS (National Transmission System)
  - Scottish Power Transmission Limited
  - Scottish Hydro-Electric Transmission Limited.
2. Following consultation on today's proposals Ofgem will publish its final proposals in November 2006. The finalised controls will then take effect from 1 April 2007 and run to 31 March 2112.
3. Capital expenditure

The table below summarises Ofgem's current assessment of the companies' spending requirements:

National Grid Gas NTS	National Grid Electricity Transmission Ltd	Scottish Power Transmission Limited	Scottish Hydro-Electric Transmission Limited.	Total
<b>£797m</b>	<b>£2953m</b>	<b>£575m</b>	<b>£178m</b>	<b>£4.5bn</b>
Already agreed investment to connect new renewable generation during the price control period			<b>£500m</b>	
<b>Grand total</b>			<b>£5.0bn</b>	

4. As part of the review Ofgem is also proposing to introduce new flexible mechanisms enabling it to adjust the companies' revenue allowances, either up or down, in response to the needs of users of the networks. The need for this arises from uncertainty over when some renewable power generation or gas import projects will be completed. If these projects do go ahead then the flexibility will allow the transmission companies to make additional investments. If the companies' high case estimates of potential investment prove correct, this could add a further £1 billion of investment, potentially increasing the total to as much as £6 billion.
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.

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