

R/47

Monday 25 September 2006

INITIAL PROPOSALS FOR GAS DISTRIBUTION ONE YEAR PRICE CONTROL REVIEW

The initial proposals for the gas distribution one year price control have been published today (Monday) by energy regulator Ofgem.

The gas distribution networks (GDNs) expect to overspend their total allowances for capital and non-mains replacement expenditure in the current five year price control period by approximately 65 per cent or £843 million in 2005-06 prices. The GDNs are seeking to pass on virtually all these costs to customers. Ofgem is proposing that shareholders fund around 40 per cent of the overspend.

To enable the companies to meet rising operating costs Ofgem is proposing to allow an increase in the GDNs' transportation charges of an average of 9.7 per cent. The majority of this increase is the result of cost increases outside the control of GDNs which have arisen during the period since the last price control was set. For example, the GDNs have felt the costs of increasing gas prices, pensions costs and business rates.

For domestic customers, for whom distribution charges make up around 15 per cent of their total bill, this represents an increase of around 2 per cent, which is less than £9 a year.

The existing controls come to an end on March 31 2007 but they are being extended for one year until April 2008 and then reset for the following five years until 2013. The proposals published today relate only to the one year control. Work on the subsequent five year control will continue throughout 2007.

Information on costs gathered during the one year price control review will feed into the first and subsequent full five-year reviews to enable Ofgem to extract efficiencies from the companies and bring benefits to customers from comparative regulation.

- Ends -

Notes to Editors:

Timeline for the Gas Distribution Price Control Review:

One year extension:

- September 2006 - initial proposals
- December 2006 – final proposals

Main review:

- November 2006 – Third consultation document
- September 2007 – Updated proposals
- March 2007 – Fourth consultation document
- May 2007 – Initial proposals

- December 2007 – Final proposals

1. Copies of the document "Gas Distribution Price Control Review One Year Control Initial 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. Annual gas distribution charges for the average customer bill are £88, representing approximately 15 per cent of a total bill.
3. Following consultation, in March 2004 Ofgem set out its intention to extend the current gas distribution price control by one year to 31 March 2008. This was to provide a more balanced workload for companies and Ofgem and to allow gas distribution and transmission issues to be considered separately. The one year control also creates an opportunity for Ofgem to review an additional year's data when setting the main price control.
4. The distribution companies are currently operating under price controls set in 2002 when the networks were all part of National Grid Transco.
 - 2002 Start of previous Transco distribution price controls running to 2007
 - 2005 Four of eight distribution networks sold
 - 2006-7 Consultation on one-year price controls for separate distribution networks
 - 2007 One-year price controls begin with consultation on first full five-year review
 - 2008-13 First full gas distribution price control period.
 -
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.

For further press information contact:

Trevor Loveday 020 7901 7288

Chris Lock 020 7901 7225

Julia Collings 020 7901 7217