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## **OFGEM SETS OUT LATEST THINKING ON FUTURE EXPENDITURE ON GAS DISTRIBUTION NETWORKS**

Energy regulator Ofgem has today (Monday) published its fourth consultation on the 2008-2013 gas distribution price control review. The consultation sets out the analysis which has been carried out by Ofgem's consultants to determine the Gas Distribution Networks' (GDNs) future capital, operating and replacement expenditure requirements.\*

Ofgem is now seeking views on these findings so it can determine what level of costs the companies should be allowed and the targets for efficiency savings that should be set for the price control. Ofgem is also seeking views on other policy issues for the price control including:

- how to use the different types of benchmarking analysis by the consultants to set cost allowances;
- how to take account of differences between companies as a result of the geographical areas they serve;
- whether the pension principles used in recent price control reviews should be adapted to address the size and scale of differences in contribution rates put forward by GDNs; and
- developments in the way GDNs are implementing the mains replacement programme.\*

Ofgem's own views on the allowances for the companies will be put forward when its initial proposals are published at the end of May.

This is the first full review that Ofgem has conducted for gas distribution following the sale by National Grid of four of the networks in 2005. In the review, Ofgem will use RPI -X (Retail Prices Index) regulation to set incentives for the companies to outperform its cost assumptions. Ofgem will compare the performance of the GDNs between 2008 and 2013 and it will use this information to pass on efficiency savings to customers when resetting future price controls.

Ofgem will also use other incentives and arrangements which, together with the companies' statutory duties to operate safe and efficient networks, will provide the best overall package to protect customers' interests.

- Ends -

### **Notes to Editors**

\* Replacement expenditure refers to the gas mains replacement programme introduced in 2002. Through this, gas distribution companies are investing to replace all iron mains within 30 metres of customers' premises over the course of 30 years.

1. Ofgem has extended the current gas distribution price control by one year to March 31, 2008. This was to provide a more balanced workload for companies and Ofgem. The one year control also creates an opportunity for Ofgem to review an additional year's data when setting the main price control from 2008-2013.

2. Timeline for the Gas Distribution Price Control Review main review:

- May 2007 – Initial proposals
- September 2007 – Updated proposals
- December 2007 – Final proposals

3. Annual gas distribution charges represent approximately 15 per cent of the average domestic gas bill.

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. In this information note, the functions of the Authority under the relevant Acts are, for simplicity, described as the functions of Ofgem.

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