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## OFGEM APPROVES GAS NETWORKS SALE

- **Ofgem has conditionally approved NGT's sale of four gas distribution networks**
- **NGT must implement new industry structures before sale can go ahead**
- **Comparative regulation should bring reduced charges to customers**
- **Ofgem's cost and benefit analysis identifies potential net benefits to customers of around £225 million**

Energy regulator Ofgem announced today (Friday) that it has conditionally approved the sale of four gas distribution networks by National Grid Transco (NGT).

Based on its statutory duties, the key legal test on which the Ofgem Authority has had to judge NGT's proposal is whether customers' interests can be protected in the event of a sale.

Following extensive work, involving customers and industry, Ofgem is satisfied that customers' interests can be safeguarded and that, therefore, it can give its consent. A detailed cost benefit analysis has identified the potential for savings of around £225 million.\* Furthermore, changes to industry structures and governance have been identified and are required as a condition of the sale to safeguard customers' interests.

Ofgem's Chairman, Sir John Mogg, said: "Ofgem is satisfied that, against the legal test that the Authority must apply, customers' interests, in terms of key issues such as costs, competition and security of supply, can be fully protected in the event of a sale.

"Separate ownership and management of the gas distribution networks will enable Ofgem to compare and contrast the performance of gas distribution companies. This will allow gas customers, for the first time, to benefit from efficiency gains of the kind that successive price controls have secured for electricity distribution customers."

"Lower distribution charges are the prize from this sale which Ofgem, through comparative regulation, will begin to capture for customers from the next price control in 2008."

As well as securing regulatory approval from Ofgem, further approvals are required from the Secretary of State for Trade and Industry and the Health and Safety Executive before the sale can proceed.

**ends**

## Notes to Editors

1. The costs of gas distribution make up around 23 per cent of the average domestic customer's bill.
2. In August 2004 NGT announced that it had entered into conditional agreements on the sale of four gas distribution networks. NGT has to obtain approval from Ofgem, the Secretary of State for Trade and Industry, and the Health and Safety Executive before the sale can go ahead.
3. The key legal test against which Ofgem's Authority has had to judge this proposal is its primary statutory objective to 'protect the interests of consumers.'
4. Ofgem estimates the potential net benefits to customers range from a high case of around £500 million to a low case of around £80 million between 2005-2023.\* These benefits are expected to start to feed through to customers in future price controls as Ofgem will be better able to compare the performance of the distribution networks. The next price control for gas distribution will take effect in April 2008. In electricity distribution, the ability to compare different companies' performance has enabled Ofgem to halve the costs of distribution in real terms since privatisation (1989).
5. The conditions for Ofgem's approval of this sale relate to the regulatory, commercial and operational arrangements that are required to support a divested industry structure. For example:
  - clearly defined roles and responsibilities for network owners
  - New Offtake arrangements (to be implemented from September 2005)
  - the introduction of an agency to carry out functions that NGT currently carries out centrally, including administering the processes needed to support gas competition.

The conditions of the Authority's consent to the sale will be published shortly.

6. 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.

***\* The potential saving of around £225 million is the estimated net benefit customers could receive between 2005 -2023, calculated in today's terms.***

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