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Your Ref:  
Our Ref:  
Direct Dial: 020 7901  
Email:

29 April 2005

Dear Colleague,

**Gas distribution price controls and the treatment of I&C meter governors**

As part of the work undertaken by Transco to sell a number of its Distribution Networks (DNs), it has identified approximately £9 million of assets which were wrongly allocated at the time its price control was separated in 2004. The purpose of this letter is to set out how Ofgem proposes correcting this mistake in advance of hive down taking place.

The assets in question are I & C meter governors. Following hive down of the DN businesses, these assets will remain with Transco as part of its metering business. For accounting purposes and in terms of the Regulatory Value (RV), these assets should have been included in the Metering business but have instead been included in the Transportation business. The small amount of opex associated with the assets was correctly included within the Metering business.

In the light of this, Ofgem intends to reduce the RV of the DNs to reflect this. The table below sets out for each DN the number of I&C governors and the adjustment which Ofgem intends to make to the RV. Transco said that the RV of these assets at 31 March 2005 in 2000 prices is £7.9 million and the RV at 1 April 2002 in 2000 prices is £8.8 million. The values for each distribution network have been calculated by pro rating the total value in line with the sculpted RVs published by Ofgem in March 2004. This ensures consistency with the approach adopted when the RVs were first separated in June 2003.

**Table 1**

<b>Distribution network</b>	<b>Number of I&amp;C governors</b>	<b>RV at 1 April 2002 *</b>	<b>Reduction to RV at 1 April 2002 *</b>
Scotland	1,685	670	0.6
North England	745	1,072	1.0
North West	1,243	1,137	1.1
East England	1,402	1,865	1.8
West Midlands	1,280	903	0.8
Wales & West	849	915	0.9
London	340	1,024	1.0
South England	715	1,789	1.7
Total	8,259	9,376	8.8

\* Figures given in £millions in 2000 prices

For the avoidance of doubt no adjustment to allowed revenues for the current price control period is being made.

Please contact Carl Hetherington on 020 7901 7469 if you have any queries in relation to this letter.

Yours sincerely

Joanna Whittington  
Director – Gas Distribution