

Statement



Promoting choice and value for all gas and electricity customers

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OFGEM WELCOMES REPORT BY NATIONAL AUDIT OFFICE ON THE SALE OF GAS DISTRIBUTION NETWORKS

Energy regulator Ofgem has welcomed a report published today (Friday) by the National Audit Office (NAO) highlighting the potential savings to customers resulting from National Grid Gas' sale of four of its eight local gas distribution networks.

The Comptroller and Auditor General, Sir John Bourn, who is the head of the NAO, said: "At a time when consumers are facing rising gas prices, I am encouraged to see that the changes to the gas industry arising from the sale of the networks have potential benefits for consumers. Ofgem has done well so far. I will be looking to Ofgem to maintain its commitment to ensuring that the potential benefits are realised."

The key test for Ofgem was to ensure that customer interests would be protected if the sale went ahead. Ofgem therefore analysed the impact of the sale and estimated that the result could be potential gross savings of £325 million between 2005 and 2023. These savings are expected to result from Ofgem's ability to take advantage of effective comparison between National Grid Gas (NGG) and the new network owners.

Ofgem Chief Executive, Alistair Buchanan, said: "I welcome the NAO's report as it clearly states that Ofgem showed a 'sound understanding' of the complexities of the sale. It also highlights the 'drive and commitment' from Ofgem to ensure the regulatory issues were dealt with before the sale was completed.

"Ofgem understands the challenge to capture customer benefits and over the next three price reviews will seek to get the best deal for consumers – something we have proved we can do during the last three price reviews for the electricity distribution network businesses."

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Notes to Editors:

1. In August 2004 National Grid Transco (now National Grid Gas) announced that it had entered into conditional agreements with third party purchasers on the sale of four of its gas distribution networks. NGT had to obtain approval from Ofgem and the

Secretary of State for Trade and Industry, before the sale could go ahead. In addition, safety cases needed to be accepted by the Health and Safety Executive. The four distribution networks NGT sold are: Scotland, the North of England, the South of England and Wales and West. The remaining four networks will be retained by NGG.

2. The key test for Ofgem was to ensure that customer interests would be protected by the sale. Ofgem estimated potential gross savings of £325 million between 2005-2023. Achieving these benefits would result in gas shippers incurring £100 million in costs, giving a net benefit to customers of £225 million. These potential benefits are expected to start to feed through to customers in future price controls as Ofgem is expected to be better able to compare the performance of the distribution networks.

3. The costs of gas distribution make up around one fifth of the average domestic customer's bill.

4. The first consultation document for the gas distribution price control review was published on December 1, 2005. The existing gas distribution price control will be extended for one year from April 2007, paving the way for a new price control from April 2008 to 2013. An important output will be to put in place a cost reporting framework to maximise Ofgem's ability to pass back the benefits of effective comparison to customers.

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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