

R/39

Monday July 17, 2006

NEXT STEPS FOR GAS DISTRIBUTION PRICE CONTROL REVIEW

The next steps towards a price control for the gas distribution networks have been taken today (Monday) by energy regulator Ofgem.

In the second consultation document for the review, Ofgem has highlighted that the distribution network owners have spent considerably more investing in, maintaining and replacing their networks than was anticipated in the last review. They have forecasted that in total they will exceed their capital expenditure allowances by approximately 64 per cent over the current price control period.

This document sets out the principles and method for deciding on the extent to which gas distribution networks should be able to recover those costs from customers. It also identifies a range of policy issues which Ofgem will want to consider fully to make sure that the benefits from the recent industry restructuring and the performance of the companies under the current incentive framework are passed back to customers.

This review marks the first time that price controls will be set for gas distribution companies since National Grid sold four gas distribution networks to three new owners last year. The existing controls come to an end on March 31 2007 but they will be extended for one year until April 2008 and then reset for the following five years until 2013.

The creation of separately owned distribution networks means Ofgem can make more effective comparisons between the businesses than was previously possible. Separate ownership should also pave the way for rivalry and competition between the different management teams. Over time, benefits should be passed back to customers in the form of lower costs than would otherwise be the case.

- 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
- March 2007 – Fourth consultation document
- May 2007 – Initial proposals
- September 2007 – Updated proposals
- December 2007 – Final proposals

1. Copies of the document “Gas Distribution Price Control Review: Second Consultation” 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 16 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. In June 2005 National Grid Gas completed the sale of four of its eight gas distribution networks: Scotland, the North of England, the South of England, and Wales and West. The remaining four networks will be retained by National Grid Gas. National Grid Gas 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.

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:

Chris Lock 020 7901 7225 /Out of hours 07766 511470

Julia Collings 020 7901 7217