



## **Gas Distribution Price Control Review – Financial Model October 2006**

1. National Energy Action (NEA) has been actively involved in the campaign to eradicate fuel poverty in the UK for 25 years. NEA welcomes the opportunity to comment on the Gas Distribution Price Control Review – Financial Model October 2006.
2. NEA is concerned to note that the proposals contained in the Financial Model published by Ofgem will lead to significant increases in the price of gas for domestic customers. The document indicates that the impact of the review could add as much as 7% onto the average domestic gas bill. This comes at a time when UK domestic gas prices are at historically high levels. An increase in prices impacts proportionally more on low-income households than other consumers. NEA would look to the regulator to protect consumers, particularly those of low incomes, by minimising the impact of the current review on domestic gas prices.
3. While NEA does not have the specialist knowledge to comment in detail on issues such as the cost of capital, the allowance made in the document does seem more generous than that used by Ofgem in the recent transmission price review.
4. NEA notes that these initial proposals are favourable to the network companies in several important respects particularly regarding the inclusion of a pass-through of increased pensions and shrinkage costs. NEA does not see why the distribution companies should be protected in this way at the expense of consumers. It seems to us perverse that households struggling on inadequate pensions should have to pay more for their gas to enable the generous pension schemes within the industry to be protected. It also appears to NEA that the companies should bear more of the risk associated with operational issues such as shrinkage.
5. When National Grid sold the gas distribution networks we were assured that consumers would benefit from lower distribution cost following the introduction of new companies into the market. It now appears that the reverse will be the case with consumers being asked to bear a larger share of the companies business and other financial risks than can be justified. NEA is also concerned that the actual settlement may be more generous to the companies, and hence more costly to customers, than the Financial Model suggests. Although the suggested arrangements are only for one year, they will clearly form the benchmark for the next five year review. The proposed arrangements clearly have a significance and a potentially detrimental impact on consumers far beyond their timescale.