

R/53

27 November 2006

MORE EFFECTIVE PRICE CONTROLS FOR BRITAIN'S LOCAL GAS NETWORKS

Ofgem today (Monday) unveiled its initial views for more effective price controls for gas distribution companies.

This is the first opportunity Ofgem has had to review the gas distribution networks separately from the gas transmission networks since they were separated in 2004. It is also the first review following the sale of four of the distribution networks by National Grid in 2005. The review therefore enables Ofgem to focus solely on the activity of gas distribution and better meeting the needs of its customers.

The gas distribution review covers prices the companies can charge between 2008-2013 and Ofgem will use inflation-linked price controls to encourage the companies to reduce their costs and pass on savings benefits to customers in future price controls.

This consultation document considers the other incentives and arrangements which together with the companies' statutory duties to operate safe and efficient networks will provide the best overall package to protect customers interests. Some of the areas Ofgem is considering with a direct impact on customers include:

- changes to how incentives for quality of service to customers work and how it is measured;
- how companies accurately record where their pipelines are located and whether incentives could be introduced to do this better; and
- a possible scheme to reward gas distribution companies who in carrying out their day to day responsibilities do so in a way which recognises their social responsibilities to the communities in which they operate.*

- Ends -

Notes to Editors:

*As part of the review, Ofgem is considering whether to introduce a discretionary reward scheme for the gas distribution networks. This scheme was set up as part of the 2005-2010 electricity distribution price controls and is designed to reward companies for good performance in activities which cannot be easily measured through the price control, such as work to help vulnerable customers and corporate social responsibility programmes. The electricity distribution companies have licence obligations regarding help for vulnerable customers, therefore the scheme recognises where they have exceeded these obligations.

1. Energy regulator Ofgem is reviewing the price controls for the companies that run the local gas distribution networks. 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. The one year control also creates an opportunity for Ofgem to review an additional year's data when setting the main price control from 2008-2013. This is the first opportunity that Ofgem has had to review gas distribution since the sale of National Grid by four of its eight gas distribution networks in 2005.

2. Timeline for the Gas Distribution Price Control Review main review:

- November 2006 – Third consultation document
- March 2007 – Fourth consultation document
- May 2007 – Initial proposals
- September 2007 – Updated proposals
- December 2007 – Final proposals

3. Copies of the document "Gas Distribution Price Control Review: Third Consultation Document" 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

4. Annual gas distribution charges for the average customer bill are £88, representing approximately 15 per cent of a total bill.

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. In this information note, the functions of the Authority under the relevant Acts are, for simplicity, described as the functions of Ofgem.

For further press information contact:

Chris Lock 020 7901 7225 / 07766 511470

Mark Wiltsher 0207 901 7006 / 07774 728971

Julia Collings 020 7901 7217