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for all gas and electricity customers

Information Note

30 JUNE 2010

OFGEM'S DECISION ON SCOPE OF ONE YEAR PRICE CONTROL EXTENSION

Regulator protects customers' interests during 2012-13 year roll-over

Ofgem today publishes its decision of the scope of the one year extension of the current gas and electricity transmission price control. The control was originally set to run from 2007-2012, but has been extended to 2013.

The decision to extend the current control was taken to enable the conclusions of the RPI-X@20 project, Ofgem's comprehensive review of how we regulate energy network companies, to be reflected in the next full price control. The decisions on scope have been driven by the need to balance the regulator's remit of protecting consumers' interests while maintaining a proportionate approach to the extension.

Following consultation, Ofgem has decided that:

- The Cost of Capital (the benchmark return on investment for transmission companies) will be reviewed so it can be set in at a fair and appropriate level. Updates will be made for changes in market assumptions, while other inputs will be reviewed and updated where necessary. This could result in the adoption of a benchmark return which is higher, lower or the same as the current position.

- A full assessment of the efficiency of historical capex will take place in the next full price control. However, Ofgem will undertake a partial review of historical capex in order to better understand the companies' forecast capital expenditure (capex).

- A pragmatic approach will be adopted to determine operating expenditure (opex) allowances. Allowance for the companies will be informed by actual expenditure, along with a company-specific efficiency factor.

- Ofgem will apply the principles developed during the recently completed pensions review: the application of a notional 15 year deficit recovery period; allowing revenue for the recovery of unfunded deficit payments made during the current price control; and basing revenue allowed for ongoing pension contributions on the latest actuarial recommendations.

Ofgem will consult further on whether certain incentives that were allowed in the current control should also be applied to the one year roll-over. This includes the incentive scheme to reduce emissions of SF6 (a potent greenhouse gas used in electricity transmission equipment).

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Notes to editors

1. The transmission price control sets the maximum amount of revenue which the four energy transmission companies can earn from charges to customers using the high-voltage electricity networks and the national high-press gas mains (the National Transmission System).

2. The proposed scope of work to extend (or roll-over) the existing price control is set out in Transmission Price Control 4 – "Adapted Roll-over" (2012-13) Scope decision can be found here: http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=16&refer=Networks/Trans/PriceControls/TPCR4%20roll-over Information on Ofgem's RPI-X@20 review can be found here: http://www.ofgem.gov.uk/Networks/rpix20/Pages/RPIX20.aspx

3. The four energy transmission companies are:
   - National Grid Electricity Transmission Limited (NGET);
   - National Grid Gas Limited (NGG NTS);
   - SP Transmission Limited (SPTL); and
   - Scottish Hydro-Electric Transmission Limited (SHETL).

4. 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. The Authority's powers and duties are largely provided for in statute, principally the Gas Act 1986, the Electricity Act 1989, the Utilities Act 2000, the Competition Act 1998, the Enterprise Act 2002, the Energy Act 2004 as well as arising from directly effective European Community legislation.

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