



Making a positive difference
for energy consumers

To all interested stakeholders

Date: 28 September 2016

Open letter: Sale of Gas Distribution Networks

On 10 November 2015, National Grid plc (NG) announced it was starting the process of selling a majority interest in its gas distribution business, currently owned by a subsidiary of NG, National Grid Gas plc (NGG). On 18 May 2016, SSE announced it would consider the sale of up to one-third of its 50% equity stake in SGN Ltd, another gas distribution business.

To facilitate NG's proposed sale, we have been asked to consent to the transfer of the assets and licence of NGG's gas distribution business to a new subsidiary company. To complete the transaction, National Grid intends to sell a majority of the shares in the new subsidiary. In the case of SSE's proposed sale, no transfer of assets is required. The transaction will simply involve a sale of part of its existing equity stake. Our consent is not needed for the sale of shares in either transaction.

Beyond any sales, we will continue to regulate these businesses under our RIIO-GD1 price control regime. In 2020, we will decide on a new gas distribution price control, RIIO-GD2, for implementation from April 2021. In accordance with our RIIO principles, we will provide for a fair return on investment in the regulated business, which is represented by its Regulatory Asset Values (RAVs). To ensure consumers get what they pay for, we will make adjustments for any outputs that have not been delivered in the RIIO-GD1 control period and any investment that has been deferred to the RIIO-GD2 control period. We will calibrate expenditure and output incentives to encourage better outcomes for consumers so that companies earn returns in line with their performance.

We have not yet made any firm decisions about RIIO-GD2. Therefore, any assumptions that bidders make about future regulatory behaviour are at their own risk. Bidders should be clear that we will not provide compensation for any premium paid over the RAVs, nor will we take into account any particular financing arrangements that might be adopted when setting future price controls.

If you would like to get in touch to discuss this issue, please contact Eliza Twaddell (eliza.twaddell@ofgem.gov.uk).

Yours sincerely

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