

Regulating Transco's distribution networks

"Creating a forward looking and stable regulatory environment for Transco to deliver a safe and secure gas supply to customers at a fair price"

Introduction

At present, distribution charges account for about 30 per cent of the average domestic gas bill.

In July, Ofgem published a consultation document setting out the rationale for introducing separate price controls for Transco's eight regional distribution networks. Following consultation, Ofgem has now put forward draft proposals for separate price controls, which would:

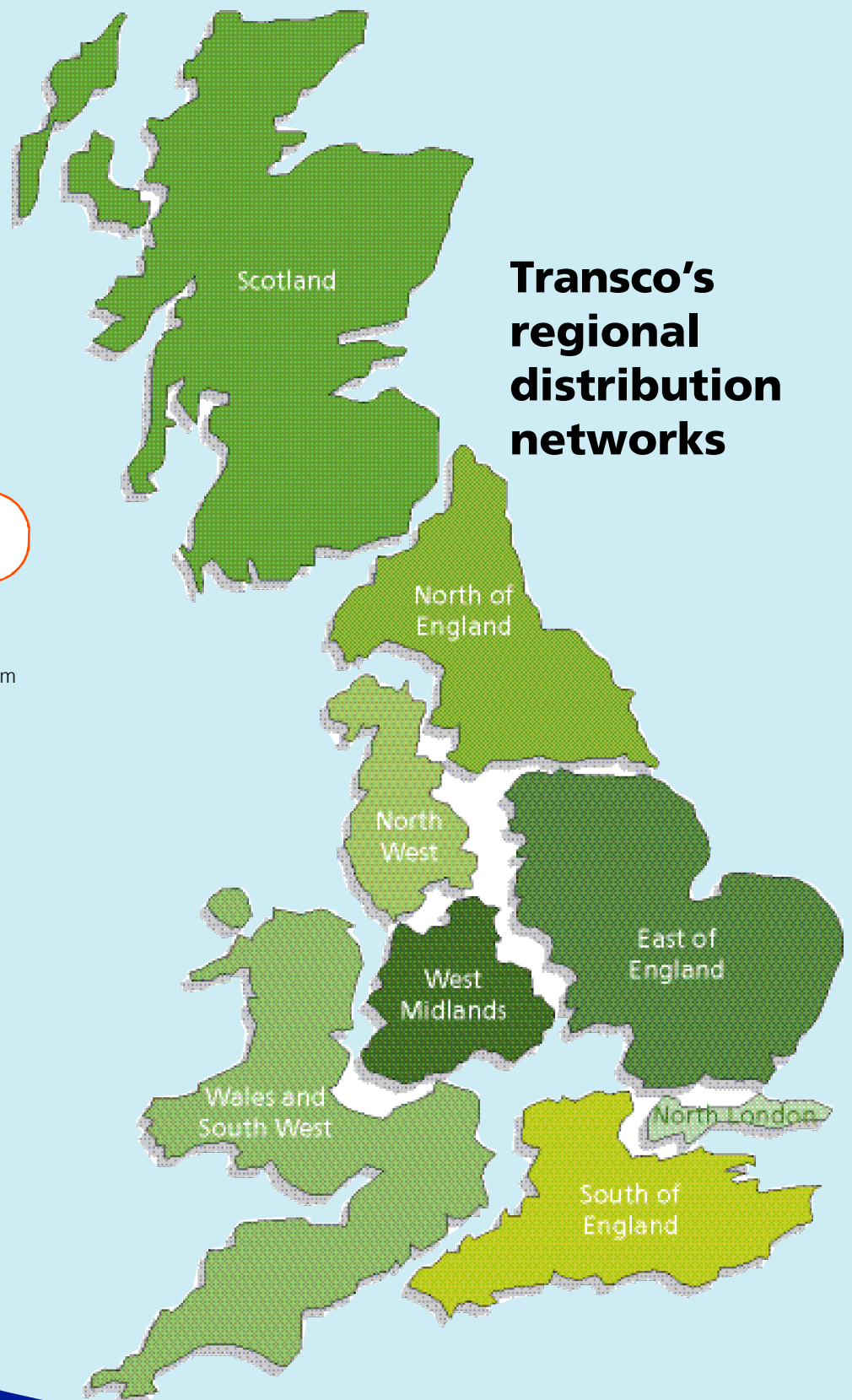
- provide a **consistent regulatory approach**, regardless of future ownership of the regional networks
- provide opportunities to compare the performance of the regional networks and so enable more **effective regulation**, and
- create greater management focus on distribution activities within Transco, encouraging **efficiency** while protecting **security of supply** and **quality of service** to consumers.

Transco's regional distribution networks

What are the regional networks?

Transco's regional distribution networks convey gas from the high pressure National Transmission System (NTS) and supply gas at lower pressures to consumers' homes around Great Britain.

The distribution networks were previously organised as 12 Local Distribution Zones (LDZs). From 1 April 2002 the LDZs have been reorganised as eight regional networks.



Why is Transco subject to a price control?

In order to protect consumers, Transco's monopoly gas transportation business is subject to controls on the prices it can charge and the quality of services it provides.

What is Ofgem proposing?

Under previous arrangements, Ofgem has set a single price control for Transco's distribution activities. These draft proposals would create a separate price control for each of Transco's regional distribution networks.

What will this mean for consumers and the industry?

Protecting consumers' interests and providing greater regulatory transparency

- Separate price controls will protect the interests of consumers and maintain consistency of regulatory approach regardless of ownership of the regional networks.

Effective regulation

- Separate price controls will provide an opportunity for Ofgem and Transco to compare the performance of the eight individual networks.
- The use of comparators in the electricity distribution sector has been successful in promoting additional efficiency savings that can be passed on to consumers.

Effective incentives on Transco's gas distribution activities

- Better information will be available about the costs of distributing gas within each regional network.
- There will be greater focus for the management of the networks and more effective incentives, the benefits of which can be passed on to consumers.

Real price reductions

- Separate price controls will encourage efficiency savings which can be passed on to consumers. The phasing in of regional price variations in distribution charges should ensure that consumers in all regions of Great Britain experience real price reductions.

Transco's gas networks - facts and figures

The National Transmission System (NTS)

- The NTS consists of 6,300 km of high pressure pipeline across Great Britain.
- Gas is delivered to the NTS at seven beach terminals around the country by gas producers and from an interconnector with mainland Europe. Gas is also received from nine major gas storage sites.
- After the gas has been treated so that it is of an appropriate quality, it is conveyed by the NTS at high pressures to large power stations, certain large industrial users and 'exit points' which connect to the distribution system in each of the regional networks.

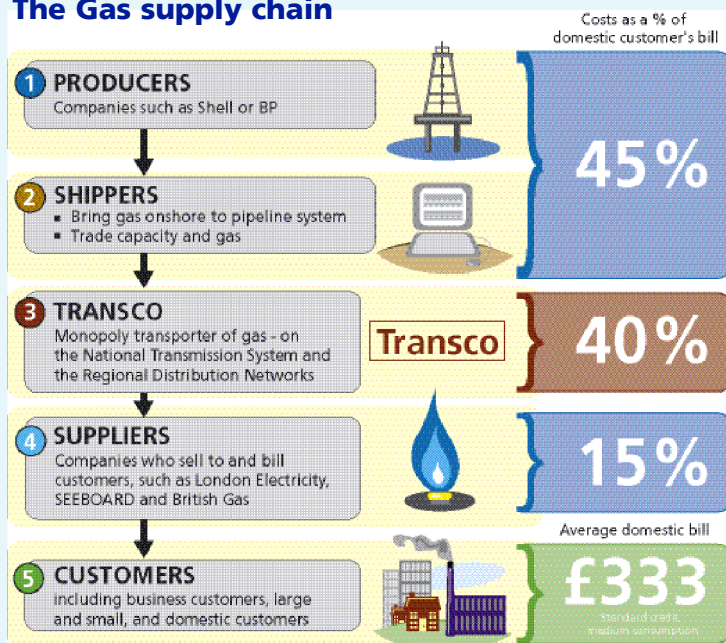
The regional networks

- The distribution system consists of 268,600 km of lower pressure pipelines spread across eight regional networks.
- The regional networks convey gas from the high pressure NTS and supply gas at lower pressure to domestic and business consumers and Independent Gas Transporters (IGTs). The majority of domestic consumers are connected to the regional networks.
- The distribution price control set allowed revenue of about £2 billion for 2002-2003. This represents about 30 per cent of the gas bill for domestic consumers.

How is gas transported around Britain?

Britain's gas comes from offshore gas fields in the North and Irish seas or is imported from Europe through an interconnector pipeline. Shipping companies buy gas from the producers which is brought ashore at a series of terminals around the country. These terminals then deliver the gas on to the NTS, which is owned and run by Transco.

The Gas supply chain



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