

# Press Release



Promoting choice and value for all gas and electricity customers

R/57

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## OFGEM CONSULTS ON IMPROVEMENTS TO MONOPOLY PRICE CONTROLS

- **Existing price control arrangements working well**
- **Developing further the framework for monopoly price controls**
- **Laying the foundations for the next distribution price control review**

Energy regulator Ofgem is seeking views on how to improve the framework of price controls on monopoly gas and electricity networks in a consultation paper published today (Wednesday).

Key challenges for all networks which Ofgem's price control review project will address, include:

- the incentives to invest in the network and help ensure security of supply
- the incentives provided to companies to operate efficiently
- balancing incentives for efficiency with improvements in the quality of service

The project will also look at issues specific to electricity distribution networks, including the likely increase in renewable and combined heat and power (CHP) generation connecting directly to the local distribution network. This is a key area if government environmental targets are to be met.

Ofgem Managing Director of Regulation and Financial Affairs, Richard Ramsay, said: "The price control framework has worked well since privatisation, providing companies with strong incentives to improve efficiency while bringing down prices and improving service quality.

"Ofgem has continued to develop its approach to price controls. Over the last year it has introduced new incentive regimes for more efficient investment, set new quality of supply standards and guaranteed outputs for customers, and implemented incentives to improve environmental performance and monitoring.

"But we need to keep building on these improvements to meet future challenges relating to security of supply and the need to take account of wider social and environmental objectives. We are starting this consultation process in good time to encourage the widest possible participation by customers and companies in this important area."

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## NOTES TO EDITORS

1. The wholesale markets – electricity generation and gas production – are fully competitive markets. The retail market for the supply of gas and electricity to homes and businesses, is also fully competitive. However, the businesses which transport gas and electricity are natural monopolies. Ofgem regulates these companies through price controls.
2. Charges for the transmission and distribution of energy over the networks accounts for 39 per cent of a domestic customer's gas bill and 27 per cent of a typical electricity bill.
3. Since privatisation, more than £30 billion has been invested in the national gas and electricity networks, and operating costs have fallen by around 30 per cent.
4. The consultation paper "Developing network monopoly price controls – Initial consultation" is available from Ofgem's website at: <http://www.ofgem.gov.uk/public/pub2002.htm> and in hard copy from the distribution centre by telephone: 0116 277 2617 or by email: [distribution@ofgem.gov.uk](mailto:distribution@ofgem.gov.uk) from 23 May. Please quote the document number 51/02 when ordering.
5. Ofgem is holding a one-day conference "Renewables and Networks – A Strategic Review" on Tuesday 10 September. The conference will bring together industry participants, policy makers and other experts to examine the issues and challenges for future network operation and investment. The conference is being held in association with the Institution of Electrical Engineers (IEE) and is supported by the Department of Trade and Industry. Further details are available from: [www.iee.org.uk](http://www.iee.org.uk)
6. Ofgem is the Office of Gas and Electricity Markets, regulating 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. Ofgem is governed by the Gas and Electricity Markets Authority. Its powers are provided for under the Gas Act 1986, the Electricity Act 1989 and the Utilities Act 2000.

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