

MGN Gas Networks (UK) Limited

Level 30
CityPoint
1 Ropemaker Street
London EC2Y 9HD
UNITED KINGDOM

Telephone 44 20 7065 2000
Facsimile 44 20 7065 2041
Internet <http://www.macquarie.com/uk>

17 May 2005

Sonia Brown
Director, Transportation
Office of Gas and Electricity Markets
9 Millbank
London SW1P 3GE

Dear Sonia

**OFGEM CONSULTATION: POTENTIAL SALE OF GAS NETWORKS BUSINESSES
FINAL PROPOSALS FOR INTERIM INCENTIVES AND FORMAL CONSULTATION
UNDER s23 OF THE GAS ACT 1986**

This document is the formal response to the above consultation by MGN Gas Networks (UK) Limited (MGN). MGN has signed an Option Deed with National Grid Transco (NGT) to acquire the Wales and the West (W&W) Distribution Network (DN) being sold by NGT. The transaction is conditional on a number of events, including the consent of the Gas and Electricity Markets Authority.

Please feel free to contact either Julian Bagwell (020 7065 2368) or Chris Talbot (02920 588290) should you wish to discuss any of the contents of this response by MGN to your licence consultation.

Yours sincerely
MGN Gas Networks (UK) Limited

Howard Higgins
Division Director

Julian Bagwell
Senior Consultant

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General

We think it important to repeat a comment that we made in our previous response, namely that the draft licence conditions have already been the subject of extensive consultation and a number of discussions on individual conditions at various Development and Implementation Steering Group meetings. As a result, we do not think it appropriate to comment on each draft condition. Instead, we offer a small number of comments as set out below. Apart from these comments, we are comfortable with the proposed revisions to the gas transporter licence.

A38 Credit Rating of the Licensee

Following our comments on the previous draft, we welcome the proposed changes and believe that they deal with our concerns.

A39 Indebtedness

We do not believe that the definition of the businesses subject to the cross default obligations, provided in paragraph 5(iii) is appropriate as it excludes *de minimis* business. This would mean in practice that subsidiaries would not be able to conduct such business, as they would be excluded from the general cross default obligations by virtue of this definition. We do not think that the Authority meant this, and we suggest that appropriate cross reference in 5(iii) be made to *de minimis* activity, for example that provided in A36 4(a).

Timing

Our final comment relates to timing. We are aware of the pressures on the Authority and the important need to demonstrate due process. Nevertheless, the more notice that we have of the final approval of the Authority to the transaction completing, assuming that such approval is forthcoming, the better. We note that in the consultation paper, paragraph 1.343, reference is made to the modifications being introduced on 27 May. It would be of great assistance if the Authority could announce earlier than that if it is or is not satisfied that all the conditions subsequent have been satisfied. This is because a number of important steps in the completion process, such as the drawing down of finance and the putting in place of insurances, cannot take place until it is clear that completion will occur as presently planned.

END