

Inveralmond House
200 Dunkeld Road
Perth
PH1 3AQ

Samanta Padalino
Senior Manager, Gas Distribution Regulation
Ofgem
9 Millbank
London
SW1 3GE

Telephone: 01738 456400
Facsimile: 01738 456415

20th December 2004

Dear Samanta,

Financial ring fencing for new and existing independent gas transporters

Thank you for the opportunity to respond to your initial proposals on the above subject. Please accept our apologies for the delay in submitting our response.

We have previously expressed concern over the likely regulatory overhead that financial ring fencing could bring to bear on Independent Gas Transporters (IGTs). Nevertheless, we do agree with Ofgem's view that the regulatory framework for the gas and electricity sectors should be aligned as far as practicable following the commencement of the Special Administrative arrangements in the Energy Act 2004. We therefore support proposals that bring IGTs into line with Independent Distribution Network Operators (IDNOs) with regard to financial ring fencing.

As such, we consider that 500,000 connected customers is the appropriate threshold level above which an IGT is required to obtain an investment grade credit rating or arrange a suitable 'keep well' agreement. We agree with the proposals that alternative arrangements similar to those introduced for IDNOs should apply for IGTs below the threshold.

If you wish to discuss any of these points further please do not hesitate to call.

Yours sincerely,

Rob McDonald
Director of Regulation