

Indra Thillainathan
Gas Distribution
Ofgem
9 Millbank
London
SW1P 3GE
indra.thillainathan@ofgem.gov.uk

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Your Ref: Ofgem doc 33/07

Dear Indra

Regulation of Independent Gas Transporter (IGT) licence holders as affiliates of existing licensees: open letter consultation

energywatch welcomes the opportunity to respond to the issues raised in the open letter. This response is non-confidential and we are happy for it to be published on the Ofgem website.

Ofgem points to a particular reason, specifically the different levels of competition in the gas and electricity connections markets, to justify allowing IGTs affiliated to existing gas distribution networks (DNs) to be regulated differently from the affiliates of electricity distribution network operators (DNOs). We accept that there is more competition in gas connections but Ofgem highlights potential pitfalls, for instance, the ability of all IGTs, not just affiliates, to cherry pick the connections for which they bid, increasing the overall network's operating costs for the incumbent DN. Ofgem is also aware of our more general concerns about the way that IGTs operate, specifically, the lack of transparency about connection costs and about how cost savings from competitive connections are shared with consumers, and the additional transportation costs which consumers connected to IGTs have to pay to suppliers.

While we accept that, based on past precedent, it may be potentially unfair to reject future applications for a licence from affiliated IGTs, Ofgem must ensure that any practices which may violate the licence of the affiliate or its associated DN, or general competition law, are fully investigated and, if proven, acted upon. Greater competition in gas connections, judged solely on market shares, does not by itself justify a looser regulatory regime for affiliate IGTs. Ofgem should undertake more effective research of the connections market to understand whether the bidding process is actually open and transparent. Appropriate levels of protection for consumers are still necessary so that they do not experience detriment. The issue of cherry picking, which may have adverse financial implications for consumers connected to the main network, is a case in point.

Going forward, we will continue to keep these issues under review as and when they are raised, always considering the possible impact on consumers, and comment further if necessary.

If you do wish to discuss our response further please do not hesitate to contact me on 0191 2212072.

Yours sincerely

Carole Pitkeathley
Head of Regulatory Affairs