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Dear Indra,

**Regulation of Independent Gas Transporter (IGT) licence holders as affiliates of existing licensees**

National Grid supports Ofgem's view that it would be inappropriate to extend the approach agreed upon for affiliated Independent Distribution Network Operators (IDNOs) to affiliated Independent Gas Transporters (IGTs), or to adopt any other extra provisions. We agree with Ofgem that substantially more competition exists in the new gas connections market compared to that of electricity and, as such, the well established competitive base in the IGT market would act to prevent an affiliate IGT from being able to exploit potential customers.

Fulcrum Pipelines Limited (Fulcrum Pipelines), being a wholly owned subsidiary of Fulcrum Connections Limited, would be a new licensed business, without any customer base upon grant of a gas transporter licence, and as such would be a small participant in the new gas connections market. As a new entrant to the market, Fulcrum Pipelines will offer more competitive choice for customers and therefore enhance competition in what is already a highly diversified market. In addition to connections provided by Gas Distribution Networks (GDN), customers are able to approach IGTs and competitive Independent Connection Providers for connections and associated services. Fulcrum Pipelines' presence will enhance rather than diminish this level of diversity and choice, especially as it will operate throughout Great Britain, within all the GDN boundaries.

As Ofgem states, the issue of IGT affiliates and their impact on competition was considered as part of the GDN sales process as a result of the common ownership of Scotia Gas Networks ("SGN") and SSE Pipelines, which led Ofgem to the conclusion that existing licence provisions and competition law powers were sufficient to address potential discrimination and competition concerns. We agree that nothing has changed since June 2005 which could lead Ofgem to change its position in respect of the application for a GT licence by Fulcrum Pipelines.

Amongst the existing regulatory and legislative safeguards which support this view are that National Grid Gas Distribution has an obligation, under Standard Special Licence Condition A6 Conduct of Transportation Business, to secure that neither the licensee nor any affiliate or related undertaking of

the licensee obtains any unfair commercial advantage. This places a duty on National Grid Gas Distribution not to give Fulcrum Pipelines any preferential or discriminatory treatment which might facilitate the exploitation of potential customers.

In relation to the provision of one off connections, sections 9 and 10 of the Gas Act place a duty on Gas Transporters to connect individual premises and pipeline systems of other gas transporters where economic to do so. In the case of domestic customers, a variety of regulatory, legislative and economic factors combine to ensure that the vast majority of such connections will only be carried out by a GDN. The latitude for a GDN to avoid its obligations in favour of an IGT affiliate is therefore severely limited by statute and further reinforced by economic factors.

We note and support Ofgem's view that it would reconsider its decision not to impose further provisions on affiliated IGTs, if the actions of GDNs with respect to affiliated IGTs were not serving the best interests of customers. Both National Grid Gas Distribution and Fulcrum Pipelines will be operated entirely independently from one another and consequently no adverse impact will be experienced by customers. In fact, the entry of Fulcrum Pipelines into the market will introduce more competition and choice for customers throughout Great Britain.

Should you wish to discuss any of the points raised in further detail or need any further information, please contact Paul Rogers on 01926 655584.

Yours sincerely

**Paul Whittaker**

*By email*