

Our ref: RF/SK/HBF/ELE009

20<sup>th</sup> September 2007

Martin Crouch  
Director of Distribution  
OFGEM  
9 Millbank  
London  
SW1P 3GE



Dear Martin

**Re: HBF Response to the Consultation on United Utilities modification  
Proposal UU/2008/002.1; Proposal to introduce payments for the adoption of  
connection assets**

It has been possible to read the above-mentioned Consultation and on one hand the Industry would welcome such payments, yet we are also mindful that an arrangement of this nature could in essence stop competition.

I would openly concede that I am not totally au fait with the detail appertaining to the Price Review for DNO's or how the minutia of this is regulated by OFGEM. The logic which prevails in that Developers "gift" an asset to a DNO at no cost to them and they receive a revenue in perpetuity does seem somewhat perverse considering that the Developer takes all of the risk and financial burden due to their enterprise. Yet the DNO gains all the benefit and monies for ever. As I have said on many occasions, can anybody cite in the UK where one Plc gifts another Plc an asset fully funded where the receiving Plc also obtains revenue in perpetuity. To date no one has been able to provide me with any other sector where this type of relationship takes place.

In light of the United Utilities proposal it would be wrong to say that the Industry would not welcome it. But I have always been concerned about "Greeks baring gifts". In this instance I am mindful of the fact that it could be used to suppress IDNO's Competition or even be used as a form of cross subsidy to their affiliated business.

The last conclusion I would draw from this is that if this is within United Utilities regulatory framework the other DNO's should be doing it as well. In the context of quantitative figures, in 2 years 6 months since the abolishment of Tariff Support Allowance one question we would ask is that have our Members in the North-West contributed over £10m to United Utilities profits because no TSA or adoption payment have been made? We would have thought that this would also need further investigation by OFGEM across all DNO's.

A concern we would also express is that this payment is not “front loaded” and in making a contribution to the Developer on the adoption of the asset this is only a result of a net cost as we possibly have today. I would suspect that this is unlikely but it could be being used by United Utilities as some form of political enticement with aim to stop IDNO competition.

We will therefore look forward with interest on this latest development in the Electricity Sector and if deemed to be acceptable by OFGEM we will await other DNO's being persuaded to take such a stance.

Yours sincerely

**Ray Farrow**

Associate Consultant

c.c. Dave Mitchell - HBF

Sian Lewis – HBF

Steve Wielebski – Vice-Chair of the HBF National Technical Committee