

12th November 2008

Connections Team
Distribution
Ofgem
9 Millbank
London
SW1P 3GE

Dear Sirs

Gas and Electricity Connections industry Review 2007-08

Thank you for the opportunity to comment on the issues raised in the above review. We have only commented on those issues relevant to the gas connections market as Northern Gas Networks has no involvement in the electricity connections market.

Is the data in the review reasonably representative of connection charges levied by GDNs and IGTs, and adoption payments made by IGTs and GDNs?

Without access to the underlying data we are not in a position to confirm this one way or another.

Are adoption payments the main reason why ICPs have a much higher market share in connections to IGT networks than GDN networks? Are there other factors that account for the fact that only 5% of connections to GDN networks are installed by ICPs?

Adoption payments are the main reason why ICP's have their constructed assets adopted by IGTs. In addition, the nature of the connections work that remains with the GDN (e.g. one-offs to existing properties) is typically less attractive to ICP's.

What factors enable IGTs to make adoption payments of these magnitudes? Do they have lower costs of operation, or are other factors at play, such as the degree of headroom in the relative price control?

Predominantly it is the headroom in the relative price control that allows the IGT to subsidise the connection charge from future transportation revenues using adoption payments. IGT transportation charges are usually set at the same level as the GDN but IGT costs are significantly lower because their networks are new and require little maintenance and no replacement expenditure. GDN transportation charges require much higher levels of maintenance and a substantial programme of investment for replacement. To eliminate this effect IGT transportation charges would have to be set by reference to their own costs rather than those of the GDN.

What factors lead IGTs to charge lower connection charges? Are ICPs/IGTs more efficient at installing the connection or are other factors at play?

The general nature of the work undertaken by IGTs compared to GDNs is different so some price differentials would be expected. IGTs are regulated to a much lesser degree than GDNs this results in the GDN carrying a higher level of overhead than an IGT.

What impact does the contrasting nature of GDN and IGT price controls have on competition in gas connections?

As set out in the review the contrasting nature of price controls allows IGTs to subsidise connection charges from future transportation revenues which distorts competition in favour of the IGT.

If you need any further information or wish to discuss any of the points raised in this letter please do not hesitate to give me a call on 07883 099609.

Yours sincerely

A handwritten signature in black ink, appearing to read 'S. Parker', written in a cursive style.

Stephen Parker
Commercial Operations Director

