

# **Governance Arrangements Surrounding Gas Connection Charging Methodologies**

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## Agenda

- Competition in Gas Connections Market
- Current Regulatory Framework for Gas Connections
- Options for Common Governance
- Comparison with Electricity Connections Market
- Conclusions

## Competition in Gas Connections - Volume

- Total connections market size – the total marketplace in 08/09 consisted of approximately 634,000 connections in total
- The total number of gas connections in 08/09 was approximately 209,000 representing 33% of the total market volume
- For the past two year's IGT's market share of gas connections has exceeded the share of the GDN's.
- In 2008-9 51% of connections were conducted via IGT owned networks and 49% DN's.
- The majority of GDN's are showing an increase in the proportion of connections via UIP's

## Competition in Gas Connections - Value

- Total connections market size – the total marketplace in 08/09 was worth approximately £713m
- The total value of gas connections was £67m, less than 10% of the total market value.
- However gas connections represented 33% of volume demonstrating that gas has a lower cost of connection resulting in fewer price related customer complaints
- Levels of non-contestable charges in gas are minimal reflecting the self lay arrangements which have been well established for many years.

## Current Regulatory Framework for Charging

- Connection charging methodology is covered in condition 4B of the gas transporter licence and connection charging regs. Ofgem has power of determination over individual charges.
- Any changes to a GDN's methodology statement must be approved by Ofgem before being implemented.
- Any request for modifications must be set out in a report clearly advising what the change is, how these changes achieve relevant objectives and a timetable for the modifications. GDNs do consult third parties on significant changes
- Condition 4B requires that each network reviews its methodology statement at least once a year
- Changes to the methodology statement are very infrequent and methodology is rarely challenged by customers.

## Options for Common Governance

1) Continue “As is” – Each GDN individually responsible but ad-hoc working industry working groups created where major changes required as happened for network extensions.

Advantages - appears to be working well as there seems to be no significant issues. Minimises industry cost and bureaucracy. Allows flexibility for relevant parties affected by a change to be involved. GDNs free to innovate.

Disadvantages but doesn't deliver the commonality of approach which Ofgem is seeking

## Options for Common Governance

2) Create a dedicated industry group (in or out of one of the industry agreements)

Advantages – Achieves a common approach and allows direct involvement from interested parties if represented on the group. May allow third parties to propose changes (in what other competitive market does such a right exist?)

Disadvantages – Taking such a widespread collaborative approach could result in slower and costlier ongoing management and maintenance. Difficult to see how a single group could adequately represent diverse users of the service. What would competition rules mean for the operation of such a group?

## Comparison to Electricity Connections Market

- Market Size - the size of the market and the number of companies competing is different in scale
- Competition – competition in gas connections is established and healthy whereas in electricity it remains underdeveloped and open to criticism
- Customer Service – guaranteed standards of service from the GDN's and also IGT's is good and meeting the required standard whereas performance standards in electricity have had several areas for concerns resulting in increased regulation.

From the above summary it is clear that the two markets are at different stages of development and as such the governance over each charging methodology may need to be addressed independently to reflect this.



## Conclusions

- NGN does not believe that introducing formalised governance for gas connection charging methodologies will aid the further development of competition or improve services to customers
- That if such arrangements are introduced they are likely to add to industry bureaucracy for little discernable benefit and run into significant difficulties with competition law
- Gas and Electricity markets are at different stages of development therefore different approaches may be appropriate
- For new developments where a common approach is required by Ofgem (e.g. network extensions) this can be achieved through one-off working groups involving all affected parties