

Sir John Mogg KCMG
Chairman



Andrew Lansley CBE MP
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*Promoting choice and
value for all customers*

22 August 2006
Our ref: jfm/mp/mc

A handwritten signature in black ink that reads "Dear Andrew,".

Mr Roger Hume

Thank you for your letter of 28 July on behalf of your constituent, regarding charges incurred by customers on independent gas transporter (IGT) networks.

Ofgem has a duty to ensure that all reasonable requests for gas through pipes are met, provided this can be done economically, and to ensure competition in the supply and laying of gas pipes. In 1995 the Gas Act 1986 was amended to allow for the creation of IGTs which develop, operate and maintain local gas transportation networks. In some cases this has led to an extension of the gas network and around 760,000 premises are now connected to IGT networks.

Since 1995 IGT transportation charges have been determined on the basis of charging methods set out in Standard Licence Conditions. In 2003 Ofgem conducted a review of the charging methods and concluded that the arrangements that control IGT charges had not been effective. As a result charges on new IGT developments from 1 January 2004 have been subject to a Relative Price Control (RPC). This means that prices are capped at a level consistent with the Distribution Network's (DN) charging. Ofgem also concluded that it would not be appropriate to force sites developed prior to 2004 to adopt RPC straightaway, but RPC migration dates have been agreed for all sites under the old arrangements.

There are differences in the way in which IGTs not yet subject to RPC recover connection and on-going costs. For a DN a greater proportion of the connection costs are recovered up-front, whereas IGTs will recover these costs through a higher charge for using the gas pipes. Shippers (companies which buy gas from producers and make arrangements for the transporter to deliver it to a supplier) will pass these costs on to the supplier who, in turn, may pass them on to the customer. For domestic consumers, distribution charges constitute some 15 to 20% of the final gas bill.

We understand that some of the main suppliers' levy an additional charge for supplying customers on IGT networks. Suppliers either identify these charges up front or have embedded them in their tariff. As well as the additional transportation costs referred to above which apply on many of the IGT networks, suppliers cite industry governance arrangements, bespoke systems and processes, and the additional administrative burden of managing these on IGT networks.

A rectangular stamp with the word "RECEIVED" in large, bold, capital letters. Below it, the date "24 AUG 2006" is stamped in a smaller font.

The Gas and Electricity Markets Authority

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We expect the competitive market to deliver benefits for consumers. IGT networks are growing, becoming an increasingly important component of the market and suppliers should be keen to attract those customers connected to them. There are signs that it is already responding. Both British Gas and Scottish and Southern Energy have removed all supplementary charges for customers on IGT networks. If Mr Hume is dissatisfied with his current tariff I would encourage him to consider changing his supplier.

Ofgem has met several times with the Gas Forum (the representative group for gas shippers and suppliers) and the Association of IGTs to discuss how the industry should handle the growth in IGTs going forward. It was highlighted that the main obstacle preventing benefits being realised has been what form of governance and change management should prevail. As a result, Ofgem intend to publish a consultation document shortly on the development of Uniform Network Code (UNC) governance arrangements for IGTs.

If you would like further briefing on this or any other of Ofgem's activities I would be happy to arrange this with our Government Affairs Team.

With best wishes

Yours ever,

A handwritten signature in black ink, appearing to be the initials 'JH' followed by a flourish.