

Martin Crouch
Director, Distribution
Ofgem
9 Millbank
London SW1P 3GE

27 September 2007

Dear Mr Crouch

**Ref: Consultation on United Utilities modification proposal UU/2008/002.1:
Proposal to introduce payments for the adoption of connection assets**

Thank you very much for the opportunity to comment on this very important proposal from United Utilities. As a first generation independent distribution network operator (IDNO) we are extremely concerned at this proposal, which we believe would wipe out competition of any kind in distribution network operation and have very significant negative consequences for competition in connections.

Our understanding of the proposal and concerns on its principles

As we understand it, United Utilities' (UU's) proposal involves its regulated distribution business making payments to developers, both its own non-regulated operation and competitors, for taking over the ownership of newly built connection assets. UU's justification for these payments is on the grounds that a future income is earned UU under price control. It also claims it is aligning its practice with that of IDNOs which it says have paid developers to take over such assets in its area. We also note that it has directly linked the proposal to implementing a new methodology for its use of system charges.

We have a number of very significant concerns with this proposal and they are summarised as responses to the two overarching questions set out in your letter. We have also attached a confidential note providing fuller consideration of the key issues set out in Annex 1 to your letter

**Does UU's modification proposal better achieve the relevant objectives?
Specifically: Is the proposal more cost reflective than the current methodology?**

Does UU's proposal restrict, distort or prevent competition in distribution?

We believe the proposal will neither be more cost-reflective nor develop competition in distribution.

We believe the proposal means that United Utilities has been double charging all connected end users in their use of system charges since 2005 because it has had provision to make asset adoption payments which it has not made. This apparent inconsistency in its current use of system charging methodology and asset adoption proposal needs to be addressed as a matter of highest priority. We believe that this should be achieved by removing the connection element from the tariffs, thus benefiting a wider group of customers than would benefit from adoption payments.

We believe United Utilities' proposal will eradicate competition in distribution from IDNOs like ourselves in its area and throughout the country if adopted by other DNOs.

Does the methodology proposed by UU provide sufficient clarity and transparency about the calculation and application of adoption payments?

Have we correctly captured the main issues raised by UU's modification proposal, and more generally by adoption payments, in Annex I?

Sufficient information has been provided for us to understand the mechanics of the proposal. We question the level of asset adoption payments proposed by UU as, from our own business perspective, we would be unable to fund adoption payments that would be even close to the scale of those proposed by UU. They are therefore discriminatory.

We would be happy to clarify any aspect of this response and our views or provide further comment as necessary.

Yours sincerely



Darren Grundy
Business Leader
For Laing O'Rourke Energy Ltd