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Dear Steve,

Open letter consultation on responsibility for Uniform Network Code Sub-Deduct Arrangements

Thank you for the opportunity to comment on the above consultation. We share the concerns regarding the ownership of sub-deduct arrangements and the associated security and safety issues. We agree that it would be preferable to find a solution that ends any uncertainty.

Legal Position

NGN is not in position to directly examine the evidence regarding the chain of legal events from the point the sub-deduct networks were constructed by British Gas prior to 1996. We can only therefore comment with authority as to whether the sale of the network from National Grid to Northern Gas included such assets. Our examination of the legal documents from the sale process concludes that sub-deduct networks were not included in the assets sold by National Grid to NGN in 2005.

Way Forward

NGN believes that the most effective way to mitigate risks for the vast majority of sub-deducts sites currently registered with xoserve, in NGN's region will be for NGN to re-engineer the networks to remove the primary / sub deduct relationships and adopt newly installed upstream assets. For this approach to proceed two conditions must be met:

- the site owner must provide explicit permission to allow NGN full access to the site concerned for assessment and any associated works on the sub-deduct assets.
- the site owner provides explicit acceptance of NGN's re-engineering and adoption of sub-deduct assets including the ongoing requirement for NGN to have sufficient access to be able to inspect and maintain the assets once adopted.

If these conditions are not fulfilled at any sub-deduct site then it should be assumed that the site owner is taking responsibility for the assets and NGN will not assume any responsibility for the assets at that site.

In terms of any assessment and adoption of the 137 sub-deduct sites in NGN's region it is useful to distinguish two categories:

1. **low/medium sites** – based on NGN's last quarter survey submission 127 out of the 137 sites are classified as low to medium effort to re-engineer and adopt. We estimate this work could be undertaken at a total cost of around £1.6m and provided we have the

required access we should be able to complete work at these sites by the end of 2013.

2. **High difficulty sites** – the remaining 10 sites on NGNs sub-deduct survey have been classified as high effort/difficulty to re-engineer and adopt. In order to provide a robust estimate of re-engineering these sites we will need to undertake detailed design studies which are likely to cost around £0.5m in total. These could be completed by 31 March 2013 provided the necessary access to these sites is secured. It is likely that any work at these sites would take place after 1 April 2013 following the completion of the design studies. It is important to note that at some of these sites the environment e.g. ground conditions, existence of hazardous materials may necessitate alternative options. For example by moving the sub-deduct meters site boundary and installing new downstream infrastructure that would be transferred to the site owner and decommissioning the existing assets.

Funding Arrangements

Given the two categories of sub-deduct sites in NGN's region we believe it is essential for Ofgem to establish arrangements for NGN to recover costs incurred as follows:

- **in the current price control** – would largely comprise of work on the low/medium sites and design studies on the high difficulty sites. We would be happy to work on some form of “logging up” with the costs incurred being included as part of NGN's RIIO-GD1 allowed revenue for 2013-21. Under this approach it is important that Ofgem is clear as to what it would consider to be “efficient” costs.
- **in the next price control** – would comprise primarily costs of works associated with the 10 high difficulty sites following the completion of the required design studies. Should Ofgem wish us to proceed with the approach set out in this response and confirm this by the end of May then we will seek to include some high level estimate of the costs in our business plan submission. Given the significant uncertainties we will face at such sites we would propose to do this on a maximum likely cost basis assuming full re-engineering is required but have the allowance on a “use it or lose it” type basis.

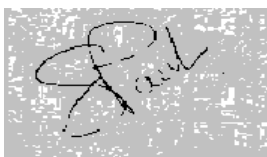
Other Issues

As you will have seen from the quarterly survey results additional sub-deducts do get identified from time to time so any arrangements would need to consider how such sites are treated.

Conclusion

Subject to the above conditions and your decision on the way forward NGN is prepared to take a more pro-active approach to resolving the concerns surrounding sub-deduct sites. Please let me know if you would like clarification on any aspect of this response.

Yours sincerely



Stephen Parker
Regulation & Commercial Director