



**National Grid Transco – Potential Sale of network distribution businesses
Allocations of roles and responsibilities between transmission and distribution
networks: Regulatory Impact Assessment**

Shell Gas Direct Response

Shell Gas Direct (SGD) sets out below our views on the above document published by Ofgem. We have considered the various options and agree with Ofgem's initial view to support Option 1. The assignment of gas balancing to NTS and the retention of the national balancing point is welcome as any fragmentation would result in significant negative effects on trading and liquidity in the market.

However, there are a few areas that deserve further thought and consideration. We are concerned about fragmentation of the industry and the negative impact that this will have on supply competition. While the Agency RIA (ARIA) does cover some of these issues, we wish to reiterate here our concern that the lessons of problems with supply competition on independent gas transporters (iGTs) have not been fully considered. While it is the case that issues with the iGTs are now being addressed, it has taken some time to arrive at this and it would be unfortunate to replicate this on a larger scale with the gas distribution networks (DNs). Also, the experience in electricity is not wholly positive: there are fewer new entrants, more concentration and more difficulties with customer transfers, particularly in the non-domestic sector.

We consider that it is sensible that the DN owner is responsible for all aspects of its network operations, including interruption when there are transportation constraints. We agree that interruptions for constraint management purposes and for gas balancing should be considered separately.

The processes under interruption will be carried out will need further consideration. For example, will all DNs inform shippers of their interruption requirements separately or will this be centralised through the Agency?

It could be that there would be some inefficiencies in each DN establishing its own control centre. However, what is required is that there is control of the network. This does not mean that the DN cannot contract with another DN (including NGT) to take on this role as long as this is done in a non-discriminatory manner. It appears sensible to leave these decisions to new DN owners who will better know their businesses than decide otherwise *ex ante*.

We agree with Transco that Option 1 provides the best allocation of roles and responsibilities from a security of supply perspective. If, in light of responses, Ofgem were to decide that one of the other options, particularly Option 3, was preferable further work would need to be carried out to ensure that the conflict between the contracting for interruption and calling for interruption can be satisfactorily resolved.

Our main concern when first reading this this document is in the area of emergency cover. Ofgem states that this is provided by field staff on the DNs. However, the document does not take into account what will happen in the event of either a Gas Deficit Emergency (GDE) and a Critical Transportation Deficit Emergency (CTDE). In the event of such of an emergency, the Network Emergency Coordinator (NEC) *may*

need to interrupt large firm sites. Shippers are responsible for ensuring that Transco has information so that they can contact these customers (shippers will be required to interrupt those on transportation interruption contracts but not those on firm contracts). It is not clear from this document who will retain this information, how it will be accessed and what resources will be deployed in such a situation.

We note that this issue has now been raised through the Development and Implementation Steering Group (DISG). This is welcome but we are concerned about the scale of issues yet to be resolved. This affects both the timescales for implementation but also raises issues about the validity publishing an RIA with so many outstanding issues.

Based on the information provided to date, SGD considers that Option 1 is the best way forward for the assignment of roles and responsibilities between transmission and distribution networks. There are some aspects of normal interruption processes and emergency interruption processes that will need to be worked through before implementation. While these are resolvable, robust project planning is required to ensure that they can be resolved in realistic timescales.

Tanya Morrison
Regulatory Affairs Manager
Shell Gas Direct