



FAO Kyran Hanks  
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Office of Gas and Electricity Markets  
9 Millbank  
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22<sup>nd</sup> September 2003

Dear Kyran

**Gaz de France Energy Supply Solutions (GdFESS) response to Ofgem consultation  
'National Grid Transco – Potential sale of network distribution businesses 77/03'**

Thank you for the opportunity to respond to the above consultation. Our response will comprise this covering letter of our views on the proposed sale of the gas distribution networks and perceived impact for our business and customers, whilst appendix one will included responses to the specific questions contained within your consultation document.

GdFESS are sceptical of any direct benefit to our business and customers delivered by the National Grid Transco (NGT) proposals as currently defined. The financial cost and potential operational complexities of this exercise must be more robustly assessed in order to expose any true forecast benefits an introduction of competition in this area is professed to deliver. Ofgem must provide comfort to those who will be directly impacted that any cost savings delivered by this initiative will be passed on to Suppliers and our Customers. In addition more information regarding the enforcement of appropriate safety measures, investment regimes and standards of service will be required in advance of our support of this initiative. It is of concern that Ofgem are suggesting a move toward a more 'electricity centric' solution to distribution services whilst concurrently undertaking an investigation into the overrecovery of Electricity Distribution Businesses of some £90m worth of Distribution and Use of System Charges.

The complexity of the governance design raised within this consultation should not be underestimated. We provide our views on the proposed structure within appendix one however overall we view the proposals with dismay. Once again the governance model adopted within the electricity market forms the basis of the proposals for gas. We would observe however the fragmentation and disjoint emerging from the adoption of several different codes, namely the Balancing and Settlement Code (BSC), Connection and Use of System Code (CUSC), the Grid Code (GC) and the Master Registration Agreement (MRA). The governance bodies created under the codes, be they elected panels or executive committees, constantly face the vires question, indeed Ofgem at present are involved in an appeal against one of the MRA decisions. Fragmentation within the gas regime will lead to an inappropriate level of complexity and confusion, which will add additional cost to an already overburdensome process.



The potential resource overheads to support compliance with the requirements of the newly created codes will not be insignificant. All organisations will be faced with an increased workload in support of the proposed structure due to the additional interaction between the new organisations. This could comprise several distribution network owners in addition to the incumbent who will have distinct roles as Independent Transmission Operator, Independent System Operator and Retained Distribution Network Operator plus potentially a separate new secretariat service that will provide administrative support services for the various codes. This level of separation will not be delivered free of cost and we would require significant assurance from Ofgem that the supplier and consumers will not be subject to the full cost of delivery of this exercise.

In the foreground to this initiative we should not forget that we have other issues that require our attention, namely enhancement of the Gas Balancing and Exit Regimes and further proposals for the treatment of linepack. Any additional developments must be assessed to ensure that the potential delivery of financial benefits will not conflict with the restraints placed upon any customer facing developments. The impact for the Industrial and Commercial sector will be significantly greater than those for the domestic sector and we would require that Ofgem specifically assesses the additional overhead against any perceived benefit.

GdFESS, at this point in time, do not support the proposed divestment of the gas distribution networks, as we cannot see how our customers will be positively impacted. However we would request that Ofgem investigate why it is that the potential cost savings delivered by such an initiative are currently not manifest under the present regime. NGT, in their position as the monopoly provider should be appropriately incentivised to deliver their services at a reasonable cost. The move toward separation on the grounds of potential economies conflicts directly with that perception.

I trust you will consider our views, however should you require any clarification please do not hesitate to contact Barbara Vest on 07736 107 020.

Yours sincerely

Barbara Vest  
Representation Manager  
Gaz de France Energy Supply Solutions

## Appendix One

### Issues – Regulatory Structure for Transco

- **The degree to which Transco and RDN business should be subject to internal separation or full structural separation requirements**

The proposed divestment of the gas distribution networks requires that the initiative go forward on the basis of a 'level playing field approach'. It is not possible for Transco to administer control of the Retained Distribution Networks within the same business structure without some form of complex, opaque ring fencing. Transparency can only be delivered by the adoption of full structural separation.

- **Whether separate licensing arrangements should apply to both RDNs and IDNs**

Both the RDNs and IDNs should be subject to the same separate licence arrangement in order to support the 'level playing field approach'.

- **Whether separate transmission and distribution licences should be established and, whether Transmission and Distribution functions should be separately identified within the existing GT licence structure**

Yes in order to ensure transparency

### Issues – Network Code

- **Whether each RDN and IDN business should have its own network code arrangements and modification rules**

If full separation from the Transmission and System Operation functions is adopted then it is possible to apply one new set of rules to the Distribution Businesses. GdFESS would question whether development of a completely separate governance arrangement is the appropriate route. This could lead to fragmentation of developments, which will undoubtedly add unnecessary increased costs for market participants as a whole. We would suggest that it is possible to enhance the network code with the addition of a supplemental agreement containing the relevant new code obligations for the Distribution Businesses. If the market model adopted this approach the arrangements would not suffer from the 'vires' problems that have been created within the electricity model. In addition the costs of any secretariat services should be reduced if administering arrangements within one code.

- **Whether UNC arrangements should apply to Transco and each DN**

Yes see our response to the question above

- **Whether UNC should separately identify transmission and distribution related obligations and,**

Yes this would support a market model comprising separate transmission and distribution business obligations

- **Whether a common code for all distribution networks should be created with the separate transmission code for the NTS**

Yes

## **Issues – Exit Capacity and Interruptions**

- **What arrangements should be in place for the management of interruption across the NTS and DN network**

It is paramount for the efficient delivery of a secure supply that interruptions are managed centrally in order to fully utilise system capacity. Adoption of separate rules / operational practices for the NTS and Distribution Businesses will only lead to a degradation of the level of service delivered and in our opinion is likely to lead to an increase in the number of interruptions. This would not be acceptable.

- **The nature of the interruption contracting framework at the NTS/DN interface and the extent to which Transco as NTS/SO should be able to contract directly with Shippers (and Customers) at DN supply points**

Whatever final design is adopted, the arrangements should not adversely impact our I&C customers either in terms of security of supply or burdensome cost overheads.

Furthermore, this question in itself highlights the inherent operational complexity of the potential sale of DN'S and casts doubt, in our mind, upon the realisation of any theoretical economic rational for doing so for all but NGT's shareholders.

In addition the model should not conflict with any developments within the electricity side of the market currently being discussed within the vires of the Connection and Use of System Code Transmission Access Standing Group.

- **The extent to which interruption arrangements should be market based, administrative in nature or a combination of the two**

A market-based approach should be the aim in order to provide appropriate investment signals.

- **The role of the offtake agreement in the management of the interruption at the NTS/DN interface**

It is difficult to assess at this early stage whether an offtake agreement offers the best approach. More detail required.

- **The impact of the sale of a DN on Transcos NTS/SO incentive scheme and the extent to which the DN/SO should also be provided with financial incentives to efficiently manage interruption and trade off the cost of interruption with pipeline investments and,**

If IDNs are to manage interruption then as we mentioned earlier there must be a consistent approach and pipeline investment versus cost of interruption should form the market based approach adopted.

## **Issues – Exit and Balancing Arrangements**

- **Whether the Transmission and Distribution network should be governed by a single or multiple SO for the purpose of gas balancing**

A single SO would offer the most pragmatic, transparent and cost effective approach

- **Whether commercial arrangements for the provision of linepack by DNs and the Transco NTS/SO should be developed in the form of market based linepack services or through administered pricing arrangements within the proposed offtake arrangements**

Adoption of an administered pricing approach would provide most comfort to both Suppliers and consumers. A market based solution would increase risk therefore increase costs and uncertainty

- **Whether IDNs, RDNs and NTS should have financial incentives to invest and provide linepack services**

Yes

- **What charging agreements, if any, should apply to transfers of gas between DNs and NTs**

One which will ensure that the RDNs are subject to the same costs as the IDNs

- **What charging arrangements, if any, should apply to the use of IDN and RDN linepack by the NTS and the use of NTS linepack by DNs**

One which will ensure that the RDNs are subject to the same costs as the IDNs

### **Issues – Agent SPA Services**

- **Whether the agent proposal is a satisfactory model to facilitate ongoing changes to systems and business processes that support the CoS process?**

No this approach just increases the cost and complexity for participants. Difficulties experienced within the electricity market because of the separate development of the MRA outside the vires of the Pooling and Settlement Agreement and now firmly established outside the governance of the Balancing and Settlement Code should be used to inform this debate. The degradation of service to the end consumer has been exacerbated by the addition of this layer of bureaucracy. The arrangements could easily sit within a supplemental to the network code so ensuring one overall governance approach.

- **The feasibility of the options to facilitate agent funding and ownership**

We cannot support an approach that will lead to avoidable additional costs for the end consumer

- **Is the proposed UNC an appropriate set of agent governance arrangements or is a different approach needed**

Adopt the UNC approach

### **Issues**

- **Whether shrinkage arrangements should be fully unbundled at this stage**

At present the industry is facing significant enough change without including changes to this element. However if there were any quick wins to improve transparency then there may be benefit to some further work in this area

- **Whether incentives with respect to gas quality and pressure needed to be placed on Transco as owner and operator of the NTs**

Yes

- **How best to ensure that the NTs and DNs co-ordinate planning and investment between them and,**

Refer to our previous answers for our views of the unnecessary complexity. However, if this model were adopted, via their price controls and through agreement with the Health and Safety Executive would appear to be the only approach.

- **What other issues arise between the NTs and DNs where DNs are owned by a different company than the NTs**

See our covering letter