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Kyran Hanks

Director, Gas Trading Arrangements

Office of Gas and Electricity Markets
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14 October 2003

Dear Kyran

NGT – DN possible disposal

As you know I have had an interest in Gas Transportation developments for a number of years now so the attached comments on your consultation document are offered from an independent viewpoint coupled with long experience.

In December 1996 I presented a paper at an SMi Conference on this topic and interestingly received a Transco comment "it will never happen". The moral being 'never say never'. It is not easy to forecast where the combination of commercial, political and regulatory influences may take the gas transportation business in the future, but some lessons can be indicated by the past.

Naturally I should be happy to discuss any aspects with your staff or yourself and look forward to re-engaging more fully in the process.

Yours sincerely

Bob Bruce
Principal

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Comments on Ofgem consultation document July 2003

“National Grid Transco – Potential sale of network distribution businesses – 77/03”

1. General comments.

The costs v. benefits of the proposal are far from demonstrable, particularly reference Table 10.1 (p.83). As the regime changes must surely accommodate the potential sale of all DNs (otherwise how do you discriminate?) the range of net benefits available to shippers does not seem fairly reflected in the £150-330 m. range. As any benefits must also be passed down the chain to the end customer the %age retention and customer category allocation are important. These can only be determined on an individual party commercial basis?

The benefits available to shippers will surely also have to be determined by price regulation? This means a regulatory decision between the margin on an asset sale set against possible operational efficiencies and cost reductions.

The regulatory logic of a devolved DN is more cost-effective operation through different contributory factors? Flexibility and innovation will be essential to achieve this. Many of NGT's solutions to the issues appear to run contrary to these attributes?

Any solution to an issue should also be robust against future industry developments both in trading and transportation. For example what happens if DNs wish to be further sub-divided or combined in the future?

Finally there seems to be an explicit assumption that the Transco gas model is parallel to the National Grid electricity one. Is it not closer to the offshore oil & gas model and as such able to absorb some lessons? In the same vein the EU Single Energy Market should also be taken into account?

2. Regulatory architecture

If the IDN is to prosper as an independent business it should have the maximum flexibility to act and re-act to commercial circumstances and opportunities. On this basis therefore it has a greater affinity with an IPGT than Transco. As the principle of non-discrimination is paramount should not the licence structure reflect this from the start? The initial costs might be higher but the longer-term commercial freedom of all users down to the end customer would benefit?

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As all current IPGTs have individual Network Codes (however with a fair degree of similarity) and existing shippers accommodate this, Transco itself should be able to cope with a single figure number of additional network codes on DN disposal? This seems a comparatively small price to pay for the emergence of competition?

Clearly there also needs to be some form of 'offtake agreement' but should not other models besides the current electricity model be examined?

3. Exit capacity and interruptions

Interruption was put in the 'too difficult' box at the inception of the Transco Network code and subsequent modifications have only made the system barely workable. If IDNs are to be viable businesses then clear principles must be established at this point. It does not seem logical that Transco should have the right to interrupt a shipper's then supplier customer's customer on a network it does not own or operate. The market for Transco interruption is surely at the NTS/DN interface? This however leaves open the question of legacy LTI contracts, existing supplier interruption contracts and storage? The offshore model again might offer some precedent in this context?

4. Gas balancing

Transco, quite legitimately seeks to run the NTS on the basis for which it was designed – as nearly as possible steady state flow. Customers as end users on the other hand, particularly the numerical majority of domestic customers want to use gas when they wish. On this basis therefore is it not the IDN specialisation to manage this demand in the most cost-effective and profitable way? Would not the IDNs therefore be under sufficient financial and other pressures to manage their own specific targets consistent with Transco's objective?

Management of balancing using linepack and other tools, consistent with a workable offtake agreement would then be the proper responsibility of all DN SOs. This would mean of course that Transco would have to expose the current obscure operations between NTS and LDZs?

5. SPA

The control of a fundamental and essential industry database within a monopoly does not seem consistent with a competitive market let alone a Single European Energy Market. Is there a case therefore, for an independent single central standard database held by GEMA? If the FSA can countenance tracking every financial product sale then the maintenance of a regulator owned master database is equally feasible?

The users of this information for safety, metering and customer transfer then start from an unassailably independent and authoritative basis?

6. NTS/DN – other

The 1 in 20 (and 1 in 50) security criteria have always been shrouded in mystique. With the examination of other fundamental aspects of the regime is this not the time to have clear numerical values (re-visited annually) for the safety and planning criteria on the network? Transco, quite rightly, is proud of the succeeding record throughput figures for the network on certain days but does not relate these to peak values for security and planning purposes.

If these values were produced (remember we were told capacity at a terminal could not be quantified) and broken down per NTS and DN then offtake agreements could specify values as NEXAs do at present?

It might also be appropriate to re-consider the concept of a 'Gas Security of Supply Agency' (GSSA) to oversee such criteria and the arrangements to meet them? All networks would then be responsible to a single independent body, which would ease the HSE burden.

When NTS and DNs are separated the Shrinkage issue also becomes separated? There must be a distinction between a non-leaking etc. but compressor using NTS and a broadly reverse position for a DN. Transco should identify and separately contract for its own use gas and be fully responsible for all other losses. DNs on the other hand, with older pipes and end user issues will be forced to concentrate on their specific problem rather than have a degree of comfort in an overall system figure.

7. RIA

Returning to Table 10.1 would it not be helpful if these figures could be refined and at least have a measure of broader, public, industry support before a significant industry-wide exercise is undertaken? The time for pure economics has probably passed?

*Bob Bruce
Glenton Bruce Ltd.
26 September 2003.*