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Dear Kyran

National Grid Transco – Potential Sale of Network Distribution Businesses

SSE welcomes the opportunity to respond to the above consultation document. We firmly agree that Transco should not be prohibited from selling one or more of its Distribution Networks (DNs) providing that all the necessary arrangements are accounted for in a satisfactory manner.

We agree with Ofgem that the transfer of ownership of one or more DNs would assist Ofgem in comparing and benchmarking the performance of distinct DN business units. Indeed, the benefits of a comparative framework have, and continue to be used to significant effect in the regulation of separately owned electricity networks. Although Ofgem has already taken steps to enable it to compare the performance of individual DNs by separating the single LDZ price control from April 2004, in our view, the sale of one or more DNs should yield a number of additional operational efficiency savings.

However, in order to maximise the benefits and efficiencies associated with a proposed sale, we firmly believe that there should be an overriding principle of introducing minimal change and ensuring that the emerging arrangements are not unnecessarily complex. Furthermore, it is important to ensure that in considering the various elements of the current regime, only those changes that are **entirely necessary** to facilitate the sale of a DN should be addressed and in doing so, the simplest and least disruptive option should be adopted.

Based on the above therefore, we have identified a model that, in our view, would allow for the separate ownership of individual DNs with minimal disruption to the industry and that would be consistent with the prescribed regulatory principles and objectives set out in Ofgem's consultation paper. In essence, we propose that Transco should continue in its role as gas System Operator (SO) to manage the interface

between all network owners and shippers that are currently governed by the Network Code and that involve the GB gas network (i.e. including the responsibility for balancing the DNs). Governance for this would be achieved through a Uniform Network Code. Although the network owners would be responsible for the investment in, and maintenance of, the assets they own, they would be obliged to make those assets available to Transco to enable Transco to function as the GBSO. The arrangements for doing so and for managing the various network interfaces would be set out in a System Operator – Network Owner Agreement, similar to the SO-TO Code envisaged under BETTA.

We have responded to the questions/issues that Ofgem have raised in its consultation document in the attached paper. In doing so, we have also set out in more detail how we believe our proposed model would work.

I hope that you find our comments useful in considering how best to progress Transco's proposed sale of one or more of its distribution businesses. If you would like to discuss any of the points we have made in more detail, please give me a call.

Yours sincerely

Rob McDonald
Director of Regulation

SSE's response to Ofgem's consultation on the Potential Sale of Network Distribution Businesses

Introduction

We welcome the opportunity to respond to Ofgem's consultation "National Grid Transco – Potential Sale of Network Distribution Businesses".

We firmly agree that Transco should not be prohibited from selling one or more of its Distribution Networks (DN) providing that all the necessary arrangements are accounted for in a satisfactory manner. However, given that an actual sale is not guaranteed, it is vital to ensure that any proposed arrangements are equally suited to the continued ownership by Transco of all DNs and a situation where one or more is independently owned.

In considering the merits of a potential sale, we agree with Ofgem that the transfer of ownership of one or more DN would assist Ofgem in comparing and benchmarking the performance of distinct DN business units. The benefits of a comparative framework have been used to significant effect in the regulation of separately owned electricity networks with the savings associated with increased efficiencies in the operation and management of networks being shared with customers via the price control process. Indeed, Ofgem recognised the importance of being able to compare the performance of individual networks in its paper "Mergers in the Electricity Distribution Sector – Policy Statement May 2002" to the extent that it attributed a "value" of £32 million per network comparator.

Regulatory Principles and Objectives

Ofgem has set out the broad regulatory objectives and principles that must be addressed in developing the regulatory arrangements that would apply in the event that Transco was to sell a DN business. These include non-discrimination by Transco between DN businesses and/or shippers in its operation of the transmission system; the economic and efficient operation of the NTS and DN systems; competition between shippers and suppliers should not be distorted; arrangements should not preclude appropriate, future reform; and the arrangements should ensure security of supply and the effective management of emergencies. All of which we support.

However, in addition, we believe that to maximise the benefits and efficiencies associated with a proposed sale, there should be an overriding principle of introducing minimal change and to ensuring that the emerging arrangements are not unnecessarily complex. In other words, in considering the various elements of the current regime only those changes that are entirely necessary to facilitate the sale of a DN should be addressed and in doing so, the simplest and least disruptive option should be adopted.

Ofgem has created a "gateway concept" in order to define those matters that would need to be resolved or the changes that would need to be delivered to enable Ofgem to consent to any sale. We support this concept and believe that it is a pragmatic way to proceed. However, in doing so, it is necessary to ensure that the overriding principle

of minimal change/complexity outlined above is maintained. That is, we do not believe that Ofgem's consent to a sale should be conditional upon Transco agreeing to implement a "shopping list" of changes that are not explicitly required to facilitate a proposed sale.

SSE's Proposal

Ofgem and Transco have identified that the sale of a DN would mean that the existing gas transportation framework and many of the associated operational arrangements would need to be revised to a greater or lesser extent.

In considering how best to achieve this, we have identified a model that, we believe, would allow for the separate ownership of individual DNs with minimal disruption to the industry and that would be consistent with Ofgem's prescribed regulatory principles and objectives.

In essence, we believe that a model similar to that being proposed under the new BETTA arrangements could be adopted in gas. Under this proposal, Transco would continue in its role as gas System Operator (the GBSO) to manage the interface between all network owners and shippers that are currently governed by the Network Code and that involve the whole GB gas network (i.e. including responsibility for balancing the DNs). For example, Transco would continue to fulfil the gas balancing, settlement, Supply Point Administration (SPA) etc functions. Clearly, as a separate and distinct function to its role as GBSO, Transco would also continue to be responsible for providing and maintaining the gas transportation networks that it continued to own (i.e. the NTS and the DNs that had not been sold).

However, in order for Transco to fulfil its role as GBSO it would also need to have made available to it the DN assets that it no longer owned. Therefore, although the new DN owners would be responsible for the investment in, and maintenance of, the assets, they would be obliged to make the assets available to Transco to enable Transco to function as the gas GBSO. Clearly, under this approach a number of interface issues arise between Transco as the gas GBSO and the new network owners which, in our view, could be managed by the introduction of an interface agreement between Transco SO and Network Owners (a SNO Agreement) along the lines of the SO-TO Code envisaged under BETTA.

As we have described, under the above model Transco would continue to "own" the interface between shippers and the various networks. This would mean that Transco could also continue to manage the transportation charging process for all networks, not just for those it owned. For example, in addition to invoicing shippers for the transportation charges associated with its own NTS and DNs, Transco SO could also be responsible for invoicing shippers for transportation charges associated with the independently owned DNs. Transco would then "pay" the relevant, monthly instalments to the network owners equal to the allowed revenue set by their individual price controls.

The arrangement for doing so would be set out in the proposed SNO Agreement. Under this approach, Transco could either set DN charges based on a universal charging methodology (thereby avoiding the issue of regional charging variations

arising from separate ownership) or, Transco could apply separate charging methodologies for the individual DNs depending upon each DN's allowed revenue. Alternatively, in the event that this approach to transportation charging was not considered appropriate, a further interface between DNs and shippers would need to be established which could, for example, be similar to a simplified version of the electricity distribution use of system agreements.

We believe that the above model has distinct advantages in that it maximises efficiencies associated with continuing to operate and balance the system as an integrated network. It would also be relatively simple to implement and, in our view, would create minimal change and cost for the industry without necessarily restricting the options going forward. Furthermore, many of the interface issues that would need to be addressed are similar to those that have already been encountered and, to a greater extent, resolved in the electricity market as part of the BETTA project.

In responding to the questions/issues Ofgem has raised in its consultation paper below, we have set out in more detail how we believe this model would work.

1. Regulatory Architecture – Separation Issues

In addition to ensuring that any new regulatory arrangements promote efficient system operation and do not distort competition between shippers and suppliers, Ofgem is concerned that they also must ensure that Transco does not discriminate in favour of its retained DNs (RDNs) in its operation of the NTS.

In practice, we believe that it is the activities that are undertaken by Transco as a GBSO that would afford it the ability to discriminate between the various DN owners. However, we believe that any potential downside in this respect is outweighed by the benefits of retaining a single GBSO and the risk of potential discrimination can be mitigated by ring-fencing Transco's SO functions from its functions as a network owner. We believe that this could be achieved through business separation obligations rather than pursuing full structural separation. However, in addition to ring-fencing Transco's SO activities, we believe that it would be prudent to include a general non-discriminatory licence condition. Of course, as well as introducing these "regulatory" precautions, Ofgem would still have recourse to action under general competition law.

2. Future Licence Arrangements

Although we recognise that future licence arrangements would need to change so that DNO's are not bound to obligations that do not apply to them, we do not believe that it is necessary to pursue the protracted process of introducing separate transmission and distribution licenses. The implications of doing so would jeopardise the proposed timetable for securing separate ownership of DNs and would not, in our view, achieve any substantial benefit in respect of non-discrimination and the efficient and economic operation of the networks. Furthermore, a separate licensing regime would seem to be inconsistent with the proposal to adopt a Uniform Network Code.

We therefore support Transco's preferred approach to continue with the present GT licence but segmenting it into activities carried out by the various "categories" of GT.

To be consistent with our proposed model therefore, we believe that the GT licence could be modified so that it includes certain conditions that apply only to DN activities, conditions that apply only to NTS activities, conditions that apply to both DN and NTS activities AND conditions that apply to Transco's GBSO activities.

We do not necessarily believe that future licence arrangements pose any additional licensing implications for IGTs beyond those that already exist. Nevertheless, we believe that the above arrangements could also provide for licence conditions to apply to all NTS and DNs (i.e. including IGTs) whilst other conditions could apply only to NTS/DN service areas – NTS/DN service areas together making up the gas transportation network that is currently owned by Transco.

3. Network Code Arrangements

Consistent with our overall objective to minimise as far as possible the extent of change that would be required to allow Transco to sell some of its DNs, we support the concept of a single, Uniform Network Code (UNC). The benefits associated with adopting this approach include administrative and commercial simplicity since parties would be signatories to one rather than multiple network codes, uniform governance arrangements and the avoidance of inconsistencies arising between separate codes.

However, under our proposed model we believe that the UNC would be the responsibility of Transco SO and would define the rights and responsibilities of all users of the gas transportation system irrespective of who owned the network. If necessary, the UNC could separately identify transmission and distribution related obligations.

Under this arrangement, Transco in its role of SO would continue to be responsible for the management and execution of the common processes such as SPA, capacity booking and trading, gas nominations, scheduling, measurement, allocation, daily balancing, and the OCM. Clearly, in implementing a UNC appropriate governance arrangements would also need to be considered.

As we have already indicated, it may also be appropriate for the UNC to govern shipper transportation charging arrangements for all networks which means that Transco would continue to invoice shippers for all transportation charges. However, in the event that this approach is not adopted we believe that shippers would be required to enter into a further interface agreement with individual network owners in order to manage transportation charging arrangements (similar to the Distribution Use of System Agreement in electricity). For the avoidance of doubt, irrespective of which approach is adopted in respect of network transportation charging, the UNC would be the primary interface agreement between shippers and Transco SO. Any obligations in respect of network owners that arise out of the UNC would be backed-off in the proposed SO Network Owners agreement outlined below.

4. The NTS/DN Interface – SSE's proposed SO-Network Owners (SNO) Agreement

Ofgem and Transco have suggested that there is a need for some form of "off-take" agreement in order to manage the interface between the NTS and DN network owners. However, rather than just defining the relationship between the NTS and DN

owners, we believe that the proposed interface agreement would govern the relationship between Transco as the GB SO and the owners of the NTS and DN service areas. In other words, we envisage that the interface agreement would be similar to the SO TO Code (STC) that is envisaged under BETTA and which details the operational, communication and contractual interfaces between the system operator and network owners.

Under this model, Transco SO and each network owner would have an obligation to establish and comply with the SNO Agreement. In essence, the SNO Agreement would set out how the network owners would make their network assets available to Transco SO in order for Transco to manage and balance the network as a whole, in the same way that it does at present. Although Transco TO and the independently owned DNs would retain the regulatory responsibility for network planning and investment, the SNO Agreement would require them to do so in a way that would not jeopardise the efficient, economic and safe operation of the system by Transco SO.

For the avoidance of doubt, the right/responsibility to invest would remain with the network owner. However, in practical terms, the SNO Agreement would require network owners to liaise with, and provide information to, Transco SO in respect of network planning, investment, maintenance and engineering works. The “normal” working parameters of the networks, such as offtake capacity, system operating pressure, flow rates etc would also be specified within the SNO Agreement and network owners would provide information about the operational availability of the assets in accordance with these parameters to Transco SO. Furthermore, the SNO Agreement would set out the responsibilities of relevant parties at each network interface.

Customers wishing to make a new connection to a network would continue to make the necessary arrangements with the network owners for the physical connection. However, in order to manage the physical offtake of gas from the system the customer/shipper would be required, if appropriate, to enter into a NExA with Transco SO. The SNO Agreement, therefore, would also identify the circumstances that would require a customer/shipper to enter into a NExA for operational purposes and set out the responsibilities of the network owner in this respect.

In addition to the above the SNO Agreement would, in effect, fulfil the role of Transco’s proposed agency arrangement in that it would specify the functions that Transco SO will carry out on behalf of all network owners. As we have already discussed, to maximise efficiency and to avoid unnecessary duplication and complexity, we believe that these functions would include for example, capacity sales, system balancing, settlement, the management of gas quality and pressure, shrinkage, calorific value management, settlement, SPA etc. In order to finance these operations, rather than “charging” network operators for doing so, we believe that the most simple approach would be for an amount to be provided for and recovered under Transco’s SO price control as per the existing arrangements.

In the event that a model is adopted that enables Transco SO to set and collect network transportation charges, the SNO Agreement would set out the mechanics of the arrangement. In effect, each network owner would have a cost claim against Transco SO consisting of an allowed revenue determined according to its revenue

restriction licence condition. Transco SO would then determine a charging methodology that recovered from shippers the aggregate sum of transportation allowed revenues. Each network owner would then invoice Transco SO monthly for the relevant proportion of this amount. The extent to which Transco SO recovers sufficient money from users to pay the network owners would depend upon the accuracy of its forecasts in setting its tariffs. In the event that there was any under/over recovery, Transco SO would be able to carry them forward.

We recognise that the layout and content of the proposed SNO Agreement should be allowed to evolve over time. However, it is also clear that a modification to the proposed SNO Agreement could have a material impact on the property rights of one or more network owners. We therefore propose that the SNO would be governed jointly by the signatories to the agreement and that consent of all parties would be required before a change to the SNO Agreement could be made. Failing that, in addition to a right of appeal to Ofgem, there should be a further right of appeal, probably to the Competition Commission.

5. Impact and Options for Exit and Interruptions Regime

Ofgem's view of the exit capacity arrangements "gateway" is that Transco would need to develop and gain Ofgem's approval as to the contractual arrangements for interruption at NTS/DN interface and the pricing of exit capacity and interruption. Although we recognise that these elements of the regime will need to be considered within the overall framework, we do not believe that Ofgem's approval should be dependent upon wholesale reform of the existing arrangements. Indeed, we are concerned that if it is, it would cause a considerable delay to the proposed timetable for Transco's sale of a DN.

We are also unconvinced that the justification for reform has been adequately established particularly since proposals to date i.e. the introduction of a universal exit regime would, if implemented, have a significant financial impact on exit points that currently provide an interruptible service.

As indicated in previous correspondence, we welcome Ofgem's recognition that it is not appropriate to enforce the universal firm exit registration requirement against Transco for 1 April 2004. However, until the justification of a universal exit regime has been fully explored and proven, we believe that it is inappropriate for Transco to have an on-going reasonable endeavours requirement to ensure universal firm registration of NTS exit capacity "as soon as reasonably practicable" after 1 April 2004. Clearly, the removal of this obligation would not preclude a review of the exit regime being undertaken and, if necessary, some form of reform being undertaken thereafter.

We therefore believe that the sale of one or more DNs should not be linked to reform of the exit regime. For the purpose of securing exit and interruption arrangements to allow Transco to sell one or more of its DNs the simplest and, we believe, most pragmatic approach would be to continue with the existing exit capacity and interruption arrangements. Under this approach Transco SO would be responsible for contracting for, and the managing of, interruption on both the NTS and DNs. Therefore issues associated in the management of interruption at the NTS/DN

interface would not arise. Furthermore, the proposed licence obligations in respect of the efficient, economic and safe operation of the system and a requirement to co-ordinate system investment provided for within the SNO Agreement would together ensure that network owners trade off the costs of interruption with pipeline investment.

Ofgem is concerned that this model could lead to discrimination by Transco between the networks it owns and those it has sold in its treatment of DN interruption. We would agree that this is an important concern. However, as we have set out in section 1. above, we believe that ring-fencing and a non-discrimination licence condition coupled with general competition law would be sufficient to address any concerns in this respect. Moreover, under our proposed model Transco would not be “contracting” with network owners for interruption services. Any shortfall in transportation revenue that result from shipper interruption could be resolved via price control mechanisms, backed-off through the proposed SNO Agreement. Furthermore, each licensee would have a licence obligation in respect of the efficient, economic and safe operation of the system as well as an obligation to co-ordinate investment in the system. Together, we believe that these provisions would adequately address any discrimination concerns in that system investment and/or Transco SO’s securing added interruption would be transparent.

6. Impact and Options for Gas Balancing

We are firmly of the view that Transco SO should continue to balance the gas transportation network as a whole (i.e. including the DNs) and that Transco SO should continue to manage the tools that are presently available to it in order to do so e.g. linepack. To adopt any other arrangement would, in our view, introduce additional and unnecessary complexity (and cost) to the regime. For example, to introduce multiple SOs would require shippers to balance each distribution network and the NTS separately, the introduction of a balancing account, specific linepack arrangements and rules to determine the extent of the trading role of DNs.

We do not agree with Ofgem that a single SO model would require arrangements to govern the transfer of gas between systems for residual gas balancing services. Rather, we believe that, in effect, Transco SO would continue to manage the system in exactly the same way that it does at present and each network owner would be obliged to make their assets available to Transco SO to enable it to function as the gas GBSO. In other words, network owners would have an obligation to make available to Transco SO an inventory of linepack for system residual system balancing purposes. In our view, the volume of linepack within each part of the network to be made available to Transco for balancing purposes would be defined within the proposed SNO Agreement. Any proposal (by either the network owner or Transco SO) to vary this amount would be governed by the SNO Agreement to co-ordinate investment and the mutual requirement to maintain an efficient, safe and economic network.

We also believe that the above approach would minimise Ofgem’s concerns that the sale of one or more DN may cause an increase in within-day gas flow and linepack variations. If Transco SO continues to balance the system as it does at present, (i.e. as an integrated system with access to the networks and associated information to enable

it to do so), we see no reason why balancing performance would be compromised. Ofgem has recognised that Transco SO's access to linepack is integral to it being able to balance the system and for this reason, we firmly oppose any proposal to introduce a commercial linepack regime. Any move to do so would, in our view, introduce unnecessary complexity and cost.

7. Impact on Supply Point Administration Process

We believe that following the sale of one or more of Transco's DN, it is essential that Transco SO should be responsible for providing the Supply Point Administration (SPA) and data management services across all of the gas transportation service areas. We believe that this approach would be the most efficient, simplest and the cheapest option to adopt.

However, unlike other "core" services that we have proposed Transco SO should continue to provide we do not believe that it is appropriate for the SPA services to be governed by the UNC. SPA processes, and indeed those associated RGMA processes, are critical to supply competition and we are very firmly of the view that rather than being included in the UNC, the SPA services should be provided for and governed by the future Supply Point Administration Agreement (SPAA).

Indeed, we believe Ofgem's "gateway" for approval should be conditional upon the inclusion of SPA in the SPAA and for Transco SO to be a signatory to that agreement. In the event that it is not possible to transfer these processes to the SPAA before a proposed DN sale, we accept that there may be a need for the UNC to govern SPA for an interim period. Should this situation occur, the implementation of SPAA should be delayed until SPA services have been transferred and Transco has become a signatory to the agreement. For the avoidance of doubt, therefore, we firmly believe that Ofgem should gain Transco's acceptance of this arrangement before permission to sell a DN is granted.

Under the above arrangement, issues associated with ownership and funding of Transco's proposed "agency" arrangement do not arise since we believe ownership would be retained by Transco and funded by Transco's SO price control.

8. Other Aspects of the NTS/DN Interface

Ofgem have set out a number of other aspects that would need to be considered in the event that Transco sells one or more of its DNs, for example shrinkage arrangements and gas quality arrangements. As we have already indicated, we believe that the most efficient approach to adopt would be for these services to continue to be provided by Transco SO, the arrangements for doing so being set out in the UNC and/or proposed SNO Agreement and for them to be financed through Transco SO's price control.

To avoid customer confusion and to maintain efficiency we support the view that Transco would retain the responsibility for providing the national gas emergency number through its call centres. However, the responsibility and management of emergency jobs from receipt of a call to making safe in accordance with the relevant obligations would rest with the network owners. We also believe that it would be prudent to retain the arrangement whereby DNs offer support to other DNs in the

event of a major loss of supply as occurs between electricity distributors through for example, the NEWSAC arrangements (the inter-DNO arrangements in electricity for co-ordinating responses to network emergencies).

The responsibility for network planning and investment should undoubtedly rest with the network owners, as should obligations in respect of developing and maintaining an efficient and economic pipeline system and a requirement to meet peak aggregate daily demand. However, in order to comply with these obligations and to reflect the proposed arrangement whereby Transco SO would continue to be responsible for balancing the system, there would need to be a requirement on network owners, set out in the SNO Agreement, to consult with Transco SO in formulating its network planning and investment activities.

9. Related Issues

- (i) **Price Control.** The extent to which Transco's price control would need to be changed as a result of it selling one or more of its DNs will depend upon the model that is adopted. Clearly, the more complex the regime the greater the impact on the price control. However, we believe the framework that we have outlined above would require the least change to the overall commercial and regulatory arrangements and therefore the least disruption to the price controls. For example, under our proposed arrangements there would be no need to establish separate linepack and interruption incentives on DN owners other than through the normal RPI-type price control incentive, since the management of these elements would remain with Transco SO.

The early resolution of price control issues will be necessary to enable potential buyers to value the DNs.

- (ii) **Mains Replacement Expenditure Cap.** We recognise the issue that would arise in respect of mains replacement expenditure following the sale of one or more of Transco's DN. In order to resolve this issue, we support Ofgem's proposal that would enable an individual network cap to be relaxed if the network owner could demonstrate a material change in workload driven by HSE requirements or Transco's risk model, so far as the additional workload is efficiently incurred.
- (iii) **Distribution Charging Methodology.** We are unsure why Ofgem has undertaken during 2003 to begin a review of Transco's distribution charging methodology. However, we do not believe that it should be specifically linked to the sale of one or more DN.

Nevertheless, Ofgem has identified that it would need to consider whether the divergence of charging methodologies is desirable. We understood that this had been considered as part of the exercise to split Transco's single LDZ price control into eight separate controls and the methodology adopted to split the total LDZ RAV specifically sought to address issue. At that time we understood, and agreed with, Ofgem's concern that separate price controls could lead to a sudden divergence in DN transportation charges. Going forward therefore, we believe that it is important to maintain a consistent

regulatory approach and we therefore believe that the sale of one or more DNs should not result in a sudden divergence of transportation charges caused by separate DN ownership.

Consistent with this view therefore, under our proposed model we believe that there is merit in promoting the application of a uniform DN charging methodology that is administered by Transco SO. As we have already described, under this proposal Transco SO would recover the aggregate DN allowed revenue based on a single charging methodology. Individual DNs would then invoice Transco SO on a monthly basis for the relevant proportion of its allowed revenue.

- (iv) **Pensions.** The treatment of pensions following the sale of a DN is clearly an important and complex issue and one that would need to be considered in great detail during a potential purchaser's valuation of the particular DN business being sold. However, our initial view of the proposals set out in the consultation is to favour the regulatory approach described in option four.

Under this option, we understand that the pension liabilities for non-actives would remain with Transco to be funded via Transco's NTS regulated income (possibly through NTS exit charges). Whereas the liability for active members attributable to the specific DN being sold would transfer to the new owner, funded from customers as part of its regulated income. Clearly, greater analysis of this approach would need to be undertaken, however, initially this option appears to be the least complex of the four options and would seem to pose the least risk and uncertainty for a potential purchaser.

- (v) **Metering.** In the event that Transco does not sell its metering assets as part of any DN sale, we believe that it would be unreasonable and inappropriate for a new DN owner to be obliged by a licence condition to provide metering services. In other words, we firmly believe that it is necessary to establish the principle that the owner of the regulated meter assets retains the regulatory obligations in respect of their provision. It is for consideration whether or not this could be achieved directly through the licensing framework. An alternative approach would be for Transco to be obliged to provide metering services on behalf of DNs, the arrangements for which would be provided for as part of the proposed interface/SNO Agreement.

- (vi) **Status of Potential Purchasers.** Ofgem has suggested that there is a range of issues associated with potential purchasers of DNs, all of which in our view would be addressed by the normal merger control process.

10. Regulatory Impact Assessment

We welcome Ofgem's inclusion of a preliminary Regulatory Impact Assessment (RIA). However, we recognise that until a model of future arrangements is agreed, a detailed RIA will not be possible. We should also stress that in carrying out a future, more detailed RIA it will be important to include only those aspects of change that are specifically required to facilitate a potential sale. That is we are concerned that at present, Ofgem's RIA would appear to include the cost/benefit of elements of reform

that are not entirely necessary in this respect and which, in our view, should not be included (for example the proposed reform of the exit review).

END