Role and responsibilities of distribution network owners

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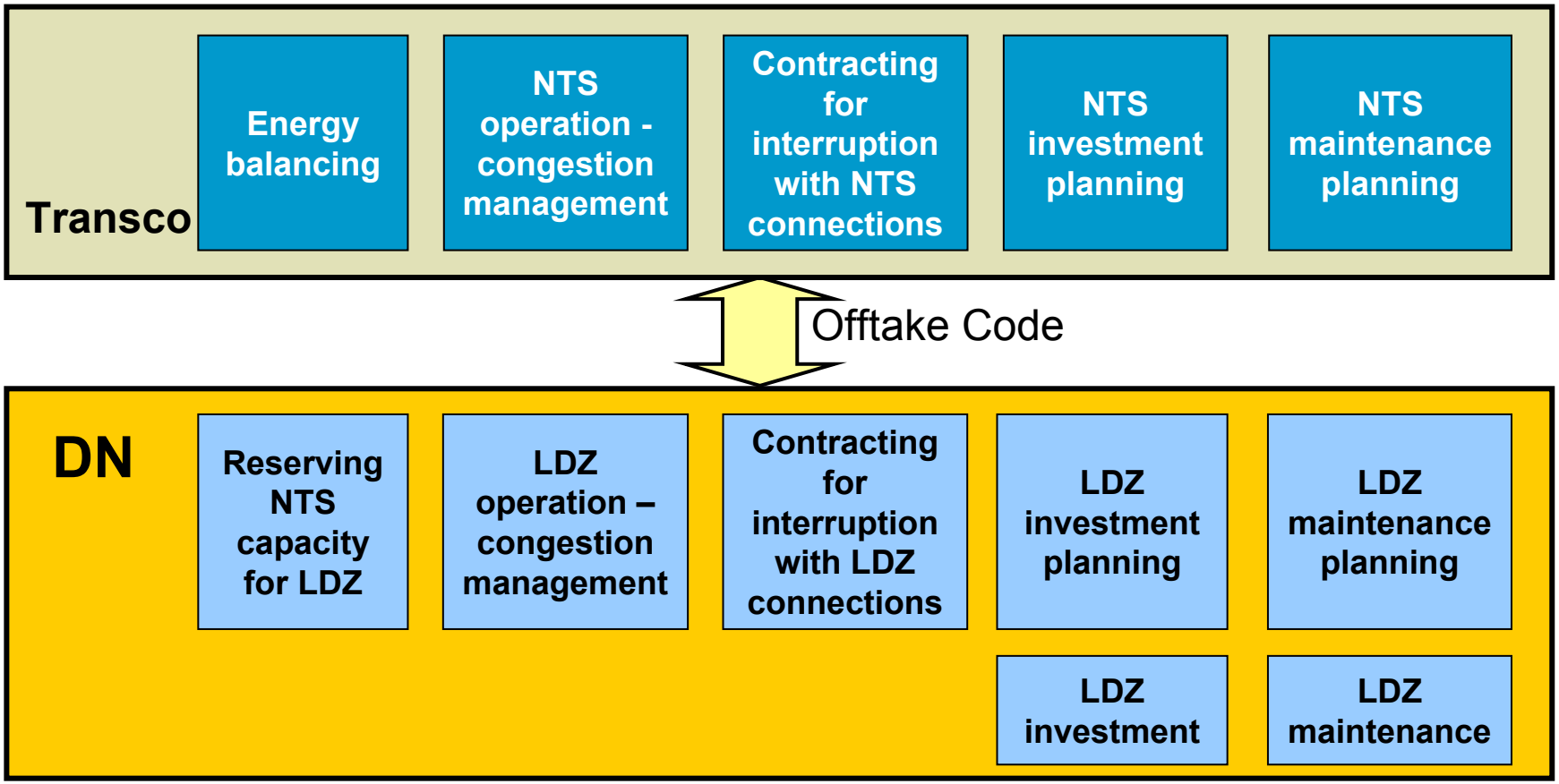
Roles and responsibilities to be assigned

NTS	Energy balancing	NTS operation - congestion management	Contracting for interruption with NTS connections	NTS investment planning	NTS maintenance planning
LDZ	Reserving NTS capacity for LDZ	LDZ operation – congestion management	Contracting for interruption with LDZ connections	LDZ investment planning	LDZ maintenance planning
				LDZ investment	LDZ maintenance

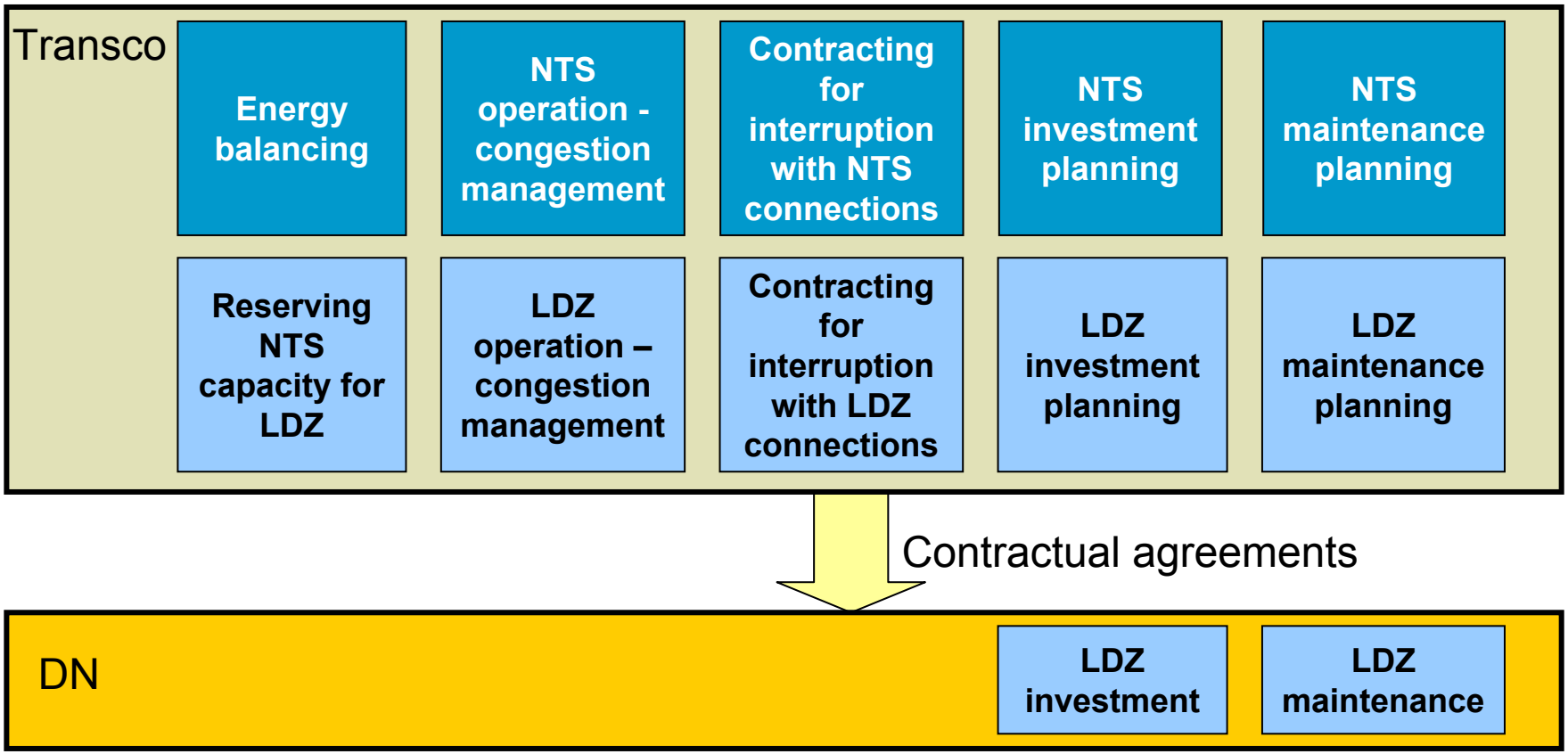
Option 1- Active DN SO



Option 1 - Implications

- Provides DN with control of its network
- Interface between DN and NTS governed by Offtake Code
- Provides DN with opportunity to make efficient trade offs between interruption and investment
- DN SO role may create more scope for innovation – increase benefits of comparative competition
- Requires numerous DN SO centres – loss of scale economies?

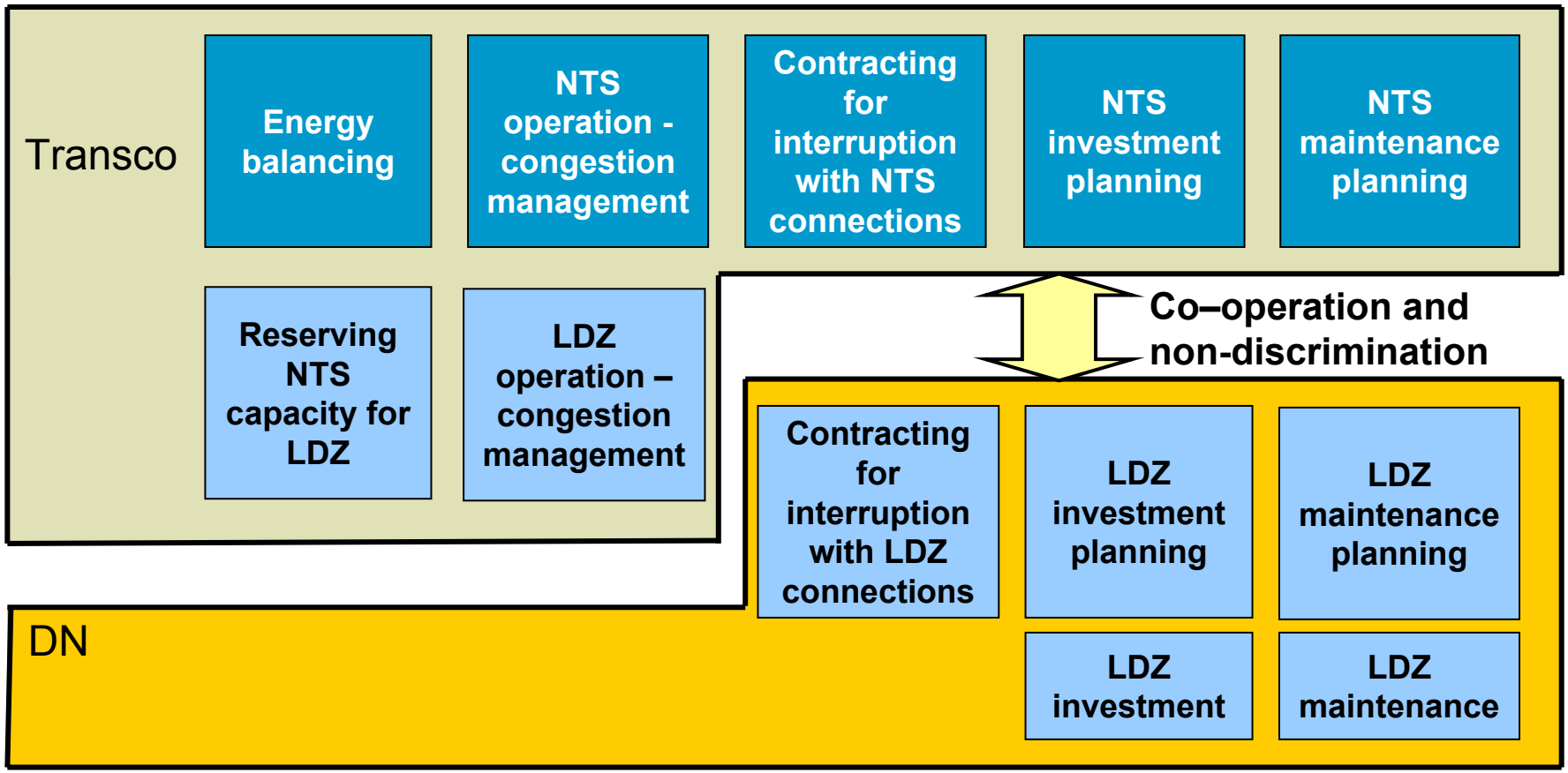
Option 2: Passive DN



Option 2 - implications

- Transco operates DNs
- Transco undertakes planning role for DNs
- DN constructs and maintains network as instructed by Transco under contract
- Allows centralised DN SO to be retained – economies of scale?
- May limit potential for innovation – less scope for comparative competition

Option 3 – Hybrid DN



Option 3 implications

- Further clarity required to understand where accountabilities lie:
  - who bears cost of interruption?
  - who is accountable for planning and failures to invest?
  - how are planning disputes resolved?

Development of contractual framework

- For Option 2:
  - one network code
  - one pricing methodology
- For Options 1 and 3 necessary to consider:
  - nature of contractual framework for DN/customer interface
  - pricing methodology framework for DNs

Contractual framework

For Options 1 and 3 there appear to be three alternatives ….

1. Uniform network code and short form DN codes	• Provides greatest scope for innovation • Will increase contractual complexity • May increase transaction costs for Shippers and undermine retail competition
2. One single uniform network code	• Will prevent fragmentation of commercial and contractual arrangements • May stifle some innovation
3. UNC and short form network codes with restrictive governance	• Opportunity to evolve separate codes minimised • Will reduce likelihood of commercial fragmentation

Pricing methodology

1. Allow development of separate charging methodologies

or

2. All DNs must use same charging methodology

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Promoting choice and value for all gas and electricity customers