

## Legal v Structural Separation of NGT's retained Distribution Networks

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My initial view of the selling of DN's was that we were forfeiting the benefits of economies of scale; however NGT's argued that the introduction of competition far out-weighed any such benefit.

I am now confused as NGT appear to be supporting both sides of the argument. They are selling DN's to facilitate competition and at the same time proposing single ownership of the NTS and retained DN's to maximise the economies of scale.

When first asked to consider legal v structural separation I felt that I was being denied significant information on the basis of commercial sensitivity. For a monopoly company the only way any information could be commercially sensitive is its effect on the company's share price. I would however question the impact on the company's share price of its actions over the last few months when Ofgem's decision on the selling of DN's is still to be made.

However I then realised that the cost of legal separation is irrelevant and should be ignored by Ofgem. The only way this information could be relevant is if Ofgem were forcing NGT to dispose of some of their DN's. As it is NGT's choice to sell DN's any costs associated with the decision is for them to consider before making the choice.

DISG should be making a recommendation based solely on what is the best structure for the gas industry following the sale of DN's.

The argument in favour of the selling of DN's is that competition and the ability to compare separate DN's will lead to lower costs and therefore benefit consumers. The Ilex report shows that the benefit of the sale of four DN's compared to a single one is significant and therefore recommends that NGT should be required to sell four.

Following this logic it must be better for NGT to sell all 8 DN's thereby maximising the benefit of competitive comparison. If it is not possible for Ofgem to require NGT to sell all DN's then logically the next best thing is that all 8 should be separate companies competing on a level playing field.

The cost of implementing any restructuring is a consequence of NGT's decision to sell DN's and therefore should have no influence on the DISG recommendation of which structure should apply.

Therefore if the sale of a single DN is to benefit consumers, then I support full legal separation of all 8 DN's to facilitate the disposal of the remainder at some future date.