

Common position in respect of a potential sale of a gas distribution network

This note sets out a common position shared by AEP Members, The Gas Forum and MEUC and as such represents the views of the vast majority of shippers and large industrial consumers of gas in the UK.

The following high level principles are aimed at avoiding fragmentation and complexity wherever possible:

High Level Principles

- Not adversely affect gas customers
- A uniform Network Code (no short form codes)
- Common pricing methodologies across all DNs
- Efficient operation of the UK gas network as a whole
- Single and complete interface for all services currently provided by Transco eg credit, invoicing and information flows
- On-going accountability to stakeholders of any agency arrangements with clear incentives to control costs
- More wide ranging changes to the exit regime should be allowed to evolve separately recognising whichever structure that is adopted to allow a sale to proceed
- Safety should not be adversely impacted

These principles arise from the view that the changes to the industry arrangements should be limited to those that are expedient and necessary to allow a sale to proceed. They represent a least cost and risk solution such that shipper costs as a result of the sale are minimised and hence the negative impact on prices to customers is also minimised. Divergence of pricing methodologies, multiple network codes and complex billing arrangements would not achieve these aims.

This minimum change scenario does not preclude changes to the arrangements in the future. Any Network Code signatory can raise a modification to the Code at any time and licence holders may discuss with Ofgem potential licence changes. In each case the proposed change could be considered against the relevant objectives and where appropriate a RIA undertaken. The industry would then have more confidence that any structural and governance changes that may evolve over time, and which may introduce further costs and complexity to a shippers/transporters business, had been individually considered on their merits and were expected to deliver benefits which outweighed any costs.

It would not be in the best interests of customers to adopt an industry structure and governance framework now that allows for divergence and fragmentation (thus increasing shippers costs/risks and hence prices to customers), on the basis that this creates the greatest opportunities for enhancements and innovation. Whilst this might result in reduced costs at some time in the future, it is difficult to quantify the extent of these benefits and the timescales within which they might arise.

In any case it is likely that the biggest element of any expected cost savings will arise from internal synergies, reduced overhead costs and better scheduling of maintenance and investment, which do not require significant change to the industry arrangements.

In terms of the proposed options for the system operation and contracting framework this would indicate that options 2 or 3 (with a single uniform network code) fulfil the above criteria for proceeding with a DN sale. Option 1 should not be discounted, but at this stage should be looked upon as a model which may develop over time depending on the strategic goals of any new DN owner and the greater transparency of benefits that may arise as a consequence of further enhancement and innovation.

We would appreciate better understanding of how unresolved issues will be addressed and the timescales associated with this work.

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