



Allocation of roles and responsibilities - Regulatory Impact Assessment

Development & Implementation Steering Group
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Objectives of RIA

- How should we assess allocation of roles and responsibilities between NTS and DNs?
- Need to consider:
 - Principal and subsidiary duties
 - GT statutory duty to develop and maintain an efficient pipe system
 - GT statutory duty and licence obligation – non-discrimination

Roles & responsibilities RIA informed by:

- workgroup discussions
- Ofgem qualitative & quantitative analysis
- HSE views
- analysis of international experience

Key issues

Accountability & clarity

Complexity of the contractual framework

Alignment of commercial incentives

Regulatory costs

Security of supply

SOS is closely linked to accountability and clarity

Scope for efficiency savings

Comparative regulation

Economies of scope

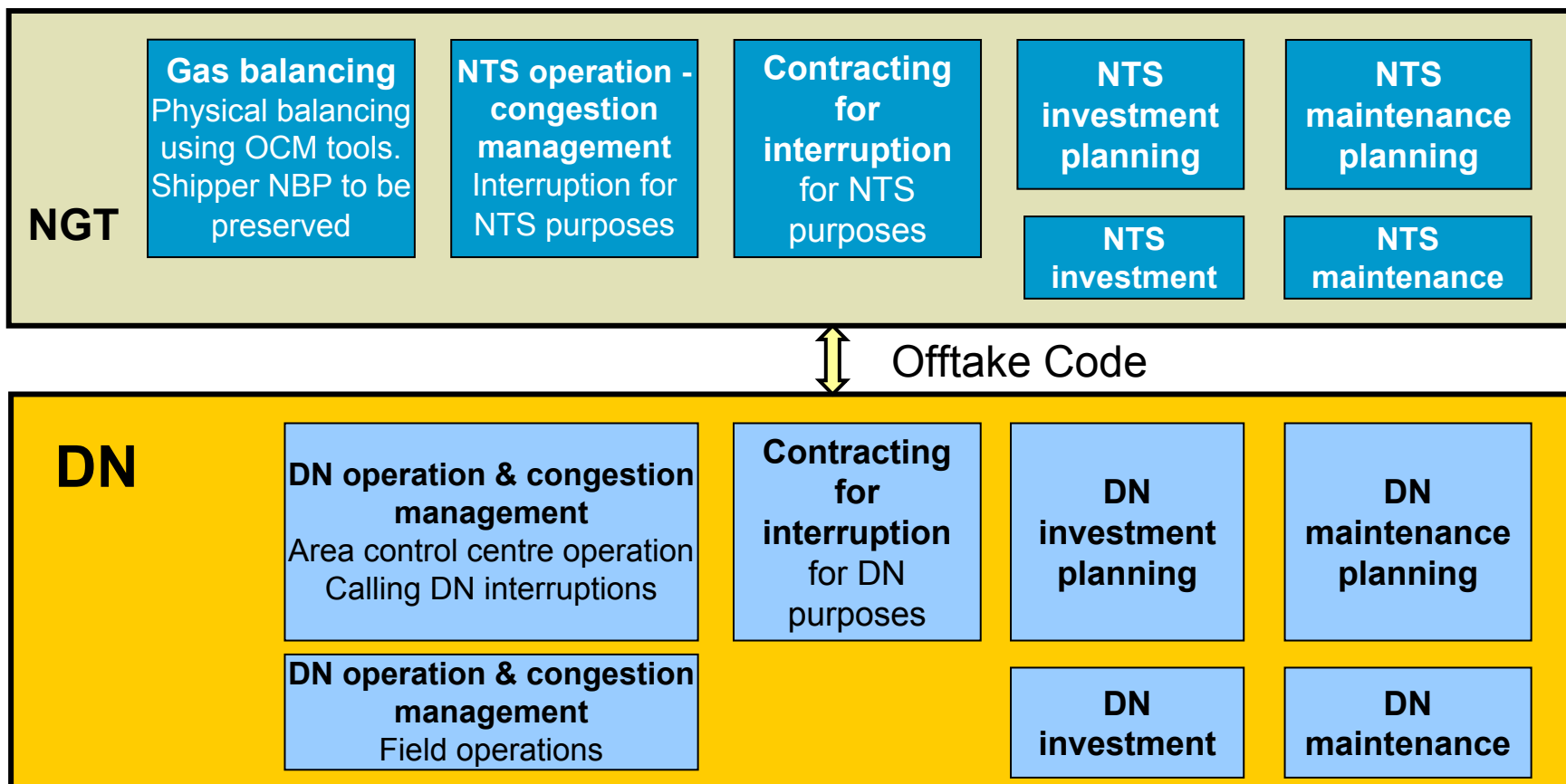
Economies of scale – *these costs will not be passed through to customers*

Operational synergies

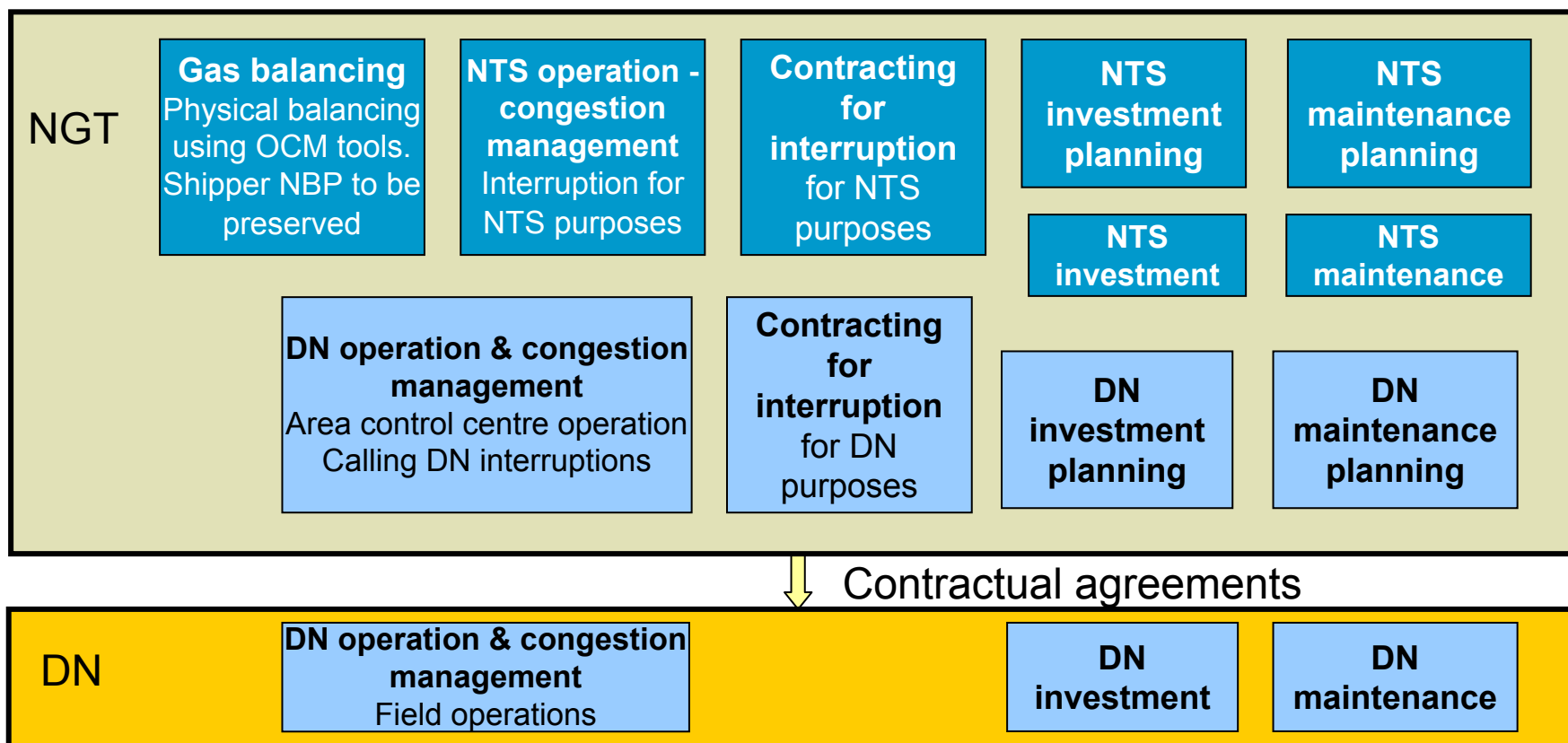
Impact on competition

Risk of fragmentation addressed via agency RIA

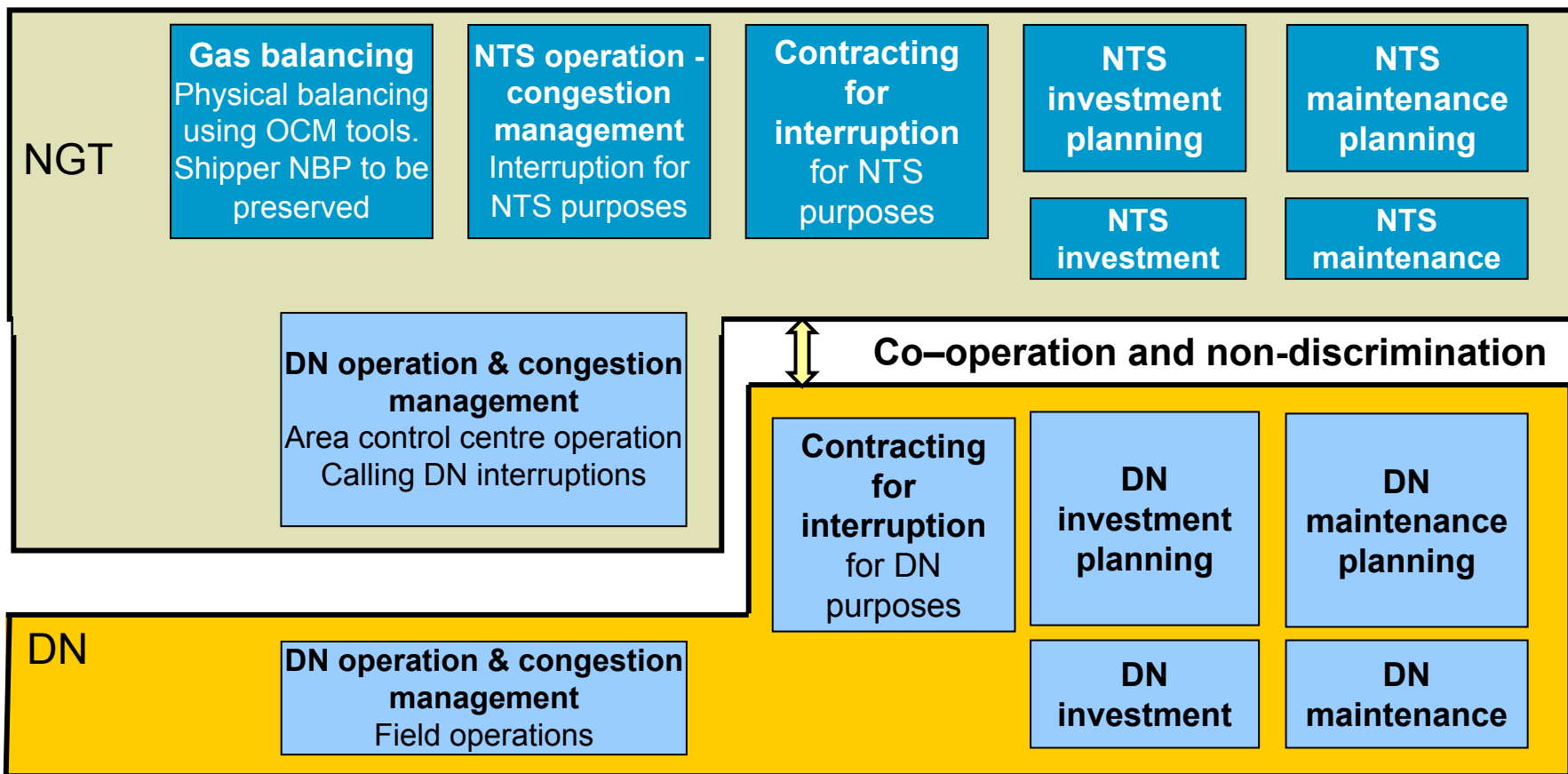
Option 1 – Active DN



Option 2 – Passive DN



Option 3 – Hybrid DN



Cost-benefit assessment – Option 1

Accountability & clarity

Clear accountability for operation and planning, although there is an issue in relation to SOMSA

Retention of existing operational synergies

Security of supply

Provides clear allocation of roles & responsibilities. Option 1 adopted by most jurisdictions considered in international analysis

Scope for efficiency savings

Maximum potential benefits from comparative regulation

Potential for economies of scope

Fragmentation addressed via agency RIA

Loss of potential benefits relative to Option 1

Not applicable – Option 1 used as base case

Cost-benefit assessment – Option 2

Accountability & clarity

Contractually complex

Regulatory costs significant

Misaligned commercial incentives

Greater potential for discrimination against IDNs

Security of supply

There is potential to meet safety case, however, it is not clear how the DN would demonstrate safety & security without control of its network

Scope for efficiency savings

Reduced benefits from comparative regulation

Limited potential for economies of scope

Loss of operational synergies

Loss of potential benefits relative to Option 1

Ranges from £31 m - £61 m

Cost-benefit assessment – Option 3

Accountability & clarity

Contractually complex

Regulatory costs significant

Misaligned commercial incentives – separation of responsibility for interruption

Security of supply

There is potential to meet safety case, however, likely to entail contractual complexity. Potential for confusion in relation to interruption.

Scope for efficiency savings

Moderate benefits from comparative regulation

Potential for economies of scope

Loss of operational synergies – co-ordination issues

Loss of potential benefits relative to Option 1

Ranges from £17 m - £24 m

Summary of costs and benefits of each option

Issue	Option 1	Option 2	Option 3
Accountability & clarity			
• Contractual complexity	✓	✗	✗
• Regulatory costs	✓	✗	✗
• Commercial incentives	✓	✗	✗
Security of supply	✓	✓	✓
Efficiency savings			
• Comparative regulation	✓	✗	✗
• Economies of scope	✓	✗	✓
• Economies of scale	—	—	—
• Operational synergies	✓	✗	✗
Loss of benefits relative to option 1	£0	£31 to £64m	£17m to £24m



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