

DN SALES ISSUES LOG

Date: 23 April 2004

Version: 1.9

No	Question	Priority	Group	Latest update	Latest action	Action owner	Due date	Ofgem's current view	Key risks
1	What functions should the agent undertake?	H	AWG DISG	190404	Ofgem published RIA on agency and governance. Interested parties to provide reponses.		170504	Ofgem intends to make a decision on the functions of the agent by the end of May.	
2	What funding arrangements should be in place for the agent?	M	AWG DISG	151203	NGT to commence work to represent direct agent costs on the basis of ABC analysis in order to facilitate the conditions for a transition if it was deemed appropriate to remove these costs from Transco's 2007 price control review.			Agent will initially be funded through price controls, with scope for funding arrangements involving suppliers to be developed in the future.	
3	What ownership arrangements should be in place for the agent?	M	AWG DISG	190404	At DISG 5 NGT indicated that each RDN, IDN and the NTS would get a share in the ownership of the agent, where precise allocation of voting rights is calculated in proportion to the number of supply points per network and the services it receives in respect of those supply points.			Ownership will be considered (and potentially changed to include suppliers) at next price control review. Until then, agent to be jointly owned by NGT/IDNs.	
4	What governance arrangements should be in place for the agent?	M	AWG DISG	161203				NC arrangements will be appropriate for shipper services, however, alternative arrangements (potentially SPAA) will be needed for SPA.	Potential for deterioration in quality of SPA services if DN's are responsible for data management - critical impact on supply competition.
5	How should the governance arrangements for the agent interact with the SPAA?	M	AWG	230404	Ofgem published RIA on agency and governance. Interested parties to provide reponses. Issue to be considered further via workgroups.		170504		
5A	Are there any shipper interface issues that will not be covered by the agency? If so, how will they be addressed?	M	AWG DISG	190404	Ofgem published RIA on agency and governance. Interested parties to provide reponses.		170504	Ofgem intends to make a decision on the functions of the agent by the end of May.	

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5B	What arrangements should be adopted in relation to services that NGT provides on an informal basis?	M	AWG	190404	The AWG has identified a set of issues that Transco currently provides to shippers and suppliers but which are not required by any industry rules.			It may be necessary to formalise arrangements to ensure that service standards are maintained by new DN owners and NGT.	
6	What separation requirements should apply between Transco and RDNs?	H	DISG	190404	NGT paper on legal separation to be discussed at DISG 8.		DISG 8	Full structural and legal separation should be required. NGT argues that legal separation will increase their cost of capital.	Uncertainty regarding Ofgem's position could have adverse affect on bond markets.
7	Is any other action required to ensure non-discrimination between RDNs/IDNs?	M	DISG	190404	Ofgem's R&R RIA and agency & governance RIA both consider mechanisms for reducing the incentive and opportunities for discrimination between NTS and DNs. Respondents to provide comments.		170504	There may be a requirement for procedural rules to prevent discrimination (eg in calling interruptions, balancing, network planning, shrinkage).	Potential to become very prescriptive.
8	What arrangements need to be put in place in respect of the provision of metering services and ownership of metering assets?	L	DISG	190404	The arrangements for metering are considered in the agency and governance RIA. Respondents to provide comments.		170504	Issues likely to arise regarding LC 8 (obligation to provide a meter) and HSE requirements on who can undertake metering work. Novation issue to be addressed through RGMA project.	
8A	Do any issues arise in relation to bailment (ie, where an asset is installed in the property of another person)?	L	DISG	010304	Since Transco is not proposing to sell its meters bailment should not be an issue.				
9	Does a DN sale give rise to any issues with respect of competition in connections?	L	DISG	020204	The arrangements for connections are considered in the agency and governance RIA. Respondents to provide comments.		170504	Ofgem to consult on a new licence condition that extends February 1999 Order obligations to all DNs. Action may be required to ensure that DN purchasers continue Transco's existing pro-competition initiatives.	

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10	Is any action required to ensure that current liabilities and standards of performance are passed on to DNs?	M	DISG	210104				Changes required so that standards of performance obligations and regulatory info requirements transfer across to DNs in the same form. Interruptions incentive scheme consultation will need to take account of the potential for new DN owners.	
11	How should independent gas transporters (IGTs) be accommodated within the reforms?	M	All groups	210104	At DISG 3 NGT agreed to arrange a tripartite meeting between AIGT, NGT and HSE to address the AIGT concerns about the risks associated with the impacts on the emergency service.	Chris Train			
12	How much will it cost to implement the reform proposals - in particular, how much will it cost to update IT systems?	H	DISG	190404	Nine suppliers provided confidential responses to an Ofgem pro-forma. Ofgem is analysing the results.	Ofgem			
13	Are shippers' systems interfaces able to support the reform proposals?	H	DISG	210104					
14	What provisions should be in the offtake agreement?	H	CIWG RAWG	280104	Ofgem received one set of comments on NGT's draft offtake code business rules. Comments on diurnal storage and offtake rights will be discussed at CIWG 6.	CIWG members		The OA would include co-ordination of NTS and DN investment, network safety, maintenance and engineering, the operational arrangements to manage flows between the respective systems and ownership specification and operation of the offtake points.	Failure to specify roles could lead to operational confusion, ambiguity in allocation of responsibility.
14A	What are the implications of NGT's SOMSA proposal?	H	DISG	190404	NGT to give presentation on SOMSAs at DISG 8.	NGT	DISG 8		
15	What arrangements should be in place for managing interruption across the NTS and DN networks?	H	CIWG	080404	CIWG has considered a number of options for exit reform. Ofgem to present summary at CIWG 7.	Mark Feather	CIWG 7		

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16	Is it necessary to distinguish between energy balancing and network interruptions and if so how?	M	CIWG	200104	Issue considered within the context of workgroup discussions of roles and responsibilities of network owners.	Mark Feather		Consider within context of roles and responsibilities RIA and assessment of different options. Ofgem view is that it is generally possible to distinguish between gas balancing and constraint management.	
17	What contractual framework should apply? Should Transco as NTS SO be able to contract directly for interruptions with DNs or with DN supply points?	H	CIWG	080404	CIWG has considered a number of options for exit reform. Ofgem to present summary at CIWG 7.	Mark Feather	CIWG 7	DNs contract with DN customers. Unresolved as to whether NGT should be able to contract for NTS interruptions with DN customers.	Risk of distorting market signals or creating inappropriate incentives for NGT if NTS/DN interruptions pricing regimes are different. Potential to introduce operational complexity.
18	Does the Gas Act permit Transco to contract directly with customers for interruptions?	H	CIWG	230404	Issue to be considered in the context of the exit RIA.			Ofgem's view that NGT can contract with customers is set out in the Next Steps document.	Is there a risk that contracts between NGT and customers could be challenged?
19	What arrangements should be in place for the pricing of exit capacity and interruptions?	M	CIWG	080404	CIWG has considered a number of options for exit reform. Ofgem to present summary at CIWG 7.	Mark Feather	CIWG 7		Concerns raised by industry participants that lack of market liquidity will compromise market-based approaches. Conversely, absence of market based signals could distort investment decisions.
20	How should local market power constraints be addressed in the new exit arrangements?	L	CIWG	080404	CIWG has considered a number of options for exit reform. Ofgem to present summary at CIWG 7.	Mark Feather	CIWG 7		Risk of significant costs associated with managing highly localised constraints. However, local market power ultimately constrained by Transco's ability to invest.

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21	What effect will a sale have on pre-existing connections contracts? (NExAs, ARCAs, NTS network entry capacity agreements, interconnector agreements, storage connection agreements.)	M	CIWG	080404	NGT provided list of ancillary documents to RAWG.				Transfer of contracts and, if any, renegotiation of contracts could have an impact on the timetable.
22	What arrangements are required in order to retain 'whole' gas balancing of the system?	M	CIWG	080404	Ofgem to issue RIA on allocating roles and responsibilities between DNs and NTS. RIA will address this issue.	Ofgem	W/C 190404	Current view is that Transco should retain responsibility for residual gas balancing thereby retaining NBP arrangements.	Keeping gas balancing whole necessary to preserve present wholesale trading arrangements
23	Will DNs need to take on a commercial energy balancing role?	M	CIWG	080404	Ofgem to issue RIA on allocating roles and responsibilities between DNs and NTS.	Ofgem	W/C 190404	Single SO gas balancing model should be retained. DNs take on responsibility for managing individual shrinkage accounts. To manage these accounts DNs will need to secure gas. Prohibition on trade for speculative reasons should be extended to the DNs.	
24	Should a linepack service for shippers be established? If so, what pricing methodology should apply?	L	CIWG	080404	CIWG to commence consideration of offtake rights and diurnal storage at CIWG 6.	CIWG members	170504	Next steps document indicated that this was not necessary at present. However, further development could be undertaken in the future if appropriate.	
25	What charging arrangements, if any, should apply to transfers of gas and linepack between DNs and the NTS?	H	CIWG	080404	CIWG to commence consideration of offtake rights and diurnal storage at CIWG 6.				Risk that an absence of charging methodologies could lead to inefficient investment and operational decisions as well as discrimination between DNs.
26	How will the NTS & DN co-ordinate investment and planning for diurnal storage?	H	CIWG	080404	CIWG to commence consideration of offtake rights and diurnal storage at CIWG 6.				
27	Who has title to gas within the network?	L	RAWG	200104	Issue to be progressed by NGT/Ofgem, who will then report back to DISG.				

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28	Should shrinkage arrangements be fully unbundled at this stage?	H	CIWG	080404	NGT presented its proposals for shrinkage at CIWG 3. The group accepted as a general principle that it was appropriate for accounts to be unbundled.			NTS and DNs should be separately responsible for the management of gas shrinkage requirements in their own networks. DNs could trade gas in order to fulfil shrinkage requirements or procure gas shrinkage services. Speculative trading prohibition could be extended to DNs.	
29	What is the appropriate cost recovery mechanism for shrinkage?	H	CIWG	080804	Under NGT's initial proposals presented at CIWG 3, each DN would have its own shrinkage provider accounts.				
30	What arrangements should be put in place to ensure that Gas Act and GSMR gas quality obligations are met?	H	CIWG RAWG	080804	At CIWG 3 NGT proposed that the GSMR obligations would apply to all gas transporters. The group discussed whether it was realistic to expect IDNs and RDNs to support each other if a gas quality problem arose.			NGT should be responsible for quality of gas entering DNs. DNs should be obliged to comply with GSMR obligations with respect to gas in their networks.	
31	Should current wet gas testing arrangements between Ofgem and NGT be formalised?	L	CIWG	020204	Ofgem's technical directorate intends to undertake a review.			It may be necessary to formalise the arrangements for wet gas testing on the DNs.	Risk that procedures will not be upheld by new owner if not formalised.
31A	Has Transco signed agreements with DN customers that include gas quality parameters tighter than the regulatory limits?	L	CIWG	010304				If Transco has signed such agreements, it is important that NTS is obliged to deliver suitable gas to the DN in question.	
32	What arrangements should be in place with regard to handling emergencies and co-ordination in the case of emergencies?	H	DISG	040204	NGT gave presentation on its proposals for emergencies at DISG 2. NGT to provide national emergency telephone number and despatch. DN personnel to respond to NGT call, and there will be arrangements so that various DNs and NGT co-ordinate and support each other.				

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33	What other aspects of DNs' operations require arrangements to coordinate activities?	L	DISG	040204	Ofgem to clarify whether areas of potential co-ordination are NTS-DN or DN-DN.	Jess Hunt	DISG 3	Investment co-ordination issues are NTS-DN, not DN-DN. Issue addressed by #36.	
34	Is NGT current procedure used to separate NTS and LDZ boundaries appropriate in the context of a DN sale?	L	CIWG	190104					Necessary to check that the physical boundaries of the new DNs correspond to regulatory boundaries.
35	What allocation and metering arrangements need to be in place at the NTS/DN interface?	M	CIWG	080804	NGT proposals are set out in its draft Oftake Code.				
36	What mechanisms should be adopted to ensure that the NTS & DNs co-ordinate planning & investment?	H	CIWG RAWG	080404	CIWG to commence consideration of offtake rights and diurnal storage at CIWG 6.	CIWG members	170504		Simply giving both DNs and NTS a 1 in 20 obligation could reduce accountability.
37	What is the impact of a DN sale on the NTS SO incentives and how should DN incentives be developed and in what form?	M	Ofgem CIWG	161203				A DN sale is likely to give rise to a need for changes to Transco's exit capacity investment incentive. Incentives on exit may also need to be set for DNs. Consideration of appropriate incentives (on the NTS and DNs) with respect to linepack and diurnal storage also necessary.	
38	Will DN sales require a re-opening of the price controls?	M	Ofgem	190404				Ofgem does not propose to reopen the current price controls.	
39	How will current Ofgem reviews affect future and present price controls?	L	Ofgem	110204				Changes resulting from the Transco distribution statement of charges review that would affect the price control could possibly be implemented at the next price control (but do not want to rule out anything at this stage).	Regulatory changes may affect the purchase price of DNs.
40	Could a DN sale give rise to any issues that need to be addressed in respect of the DN price control separation (in particular, the roll forward of RAVs)?	M	Ofgem	190404	Ofgem's view on the roll forward of RAVs is set out in an open letter published on Ofgem's website on 160304.			Projected RAVs at 1st April 2007 are set out in the open letter. Ofgem will allow capex overspend if the expenditure is (a) in the interests of customers and (b) efficiently incurred.	

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41	How will mains replacement expenditure cap overspends/underspends be addressed?	M	Ofgem	190404	Ofgem's view on the treatment of mains replacement expenditure is set out in an open letter published on Ofgem's website on 160304.			IDN's five year mains replacement cap will be relaxed if the HSE require the network operator to increase the level of mains replacement activity in the relevant region beyond the level of activity envisaged at the last price control review.	This questions affects the valuation of DN's and hence must be resolved before a sale occurs.
42	What are the implications of reforms for the LDZ charging review?	L	Ofgem	190404	Ofgem to release discussion document on LDZ charging review shortly.	Ofgem		The reviews of the exit and interruptions regime (within the DN sales project) and the capacity/commodity split (within the LDZ charging review will need to be carefully coordinated by Ofgem.	
43	Will the current proposals in electricity relating to the 5 year rolling incentives have implications for in gas if a DN sale occurs? If so, is any action required?	L	Ofgem	190404	Ofgem's view on 5 year rolling incentives is set out in an open letter published on Ofgem's website on 160304.			Consistent with electricity, Ofgem proposes to adopt 5 year rolling incentives in gas.	
44	Should Ofgem encourage the divergence of distribution charging methodologies?	M	Ofgem	190404	Issue considered in agency and governance RIA. Responses due 170504.		170504	Initial charging methodologies will be uniform, Ofgem will consider proposals for divergence as and when they arise.	Multiple charging methodologies could add complexity and create barriers to competition in supply.
45	Will the 'merger tax' be adopted in respect of gas DN's?	M	Ofgem	161203				The Next Steps document does not comment on the merger tax.	Ofgem's position on merger tax likely to have significant impact on potential purchasers.
46	What cost recovery arrangements should be in place for the pension liabilities associated with the current and former staff of a DN?	M	Ofgem	151203	Initial thoughts on a methodology statement to be published in the DPCR 4 2nd Consultation paper.			Sale arrangements should ensure that the attributable part of NGT's pension liability is transferred to IDN (or NGT can recover from IDN its share of future costs of meeting NGT's pension liability).	
47	What, if any, requirements/restrictions should Ofgem impose on potential buyers?	M	Ofgem	190404	NGT has agreed to a customer safety net in the event that only one comparator is created as a result of DN sales.				RIA analysis creates doubt over benefits if (1) only one DN is sold or (2) a non-trade buyer purchases a DN.

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48	Is Ofgem up to date with DN sale-related developments at the HSE and vice versa?	M	Ofgem	190404	HSE observes at DISG and CIWG meetings. Ofgem meeting with HSE 280404.				
49	Is Ofgem up to date with DN sale-related developments at the DTI and vice versa?	M	Ofgem	190404	DTI updated regularly.				
50	Should Ofgem's asset risk management survey be extended in scope to include smaller independent networks?	L	Ofgem	190104	Ofgem's networks directorate is reviewing this issue.			The Next Steps document indicates that Ofgem intends to include IDNs in its asset risk management survey.	
51	What is the process for issuing and approving licences for the new DN businesses?	M	Ofgem RAWG	190103					
52	How should DN licence fees be recovered?	L	Ofgem RAWG	220104					
53	What arrangements should apply with respect to the network code?	H	RAWG	190404	List of key issues prepared by RAWG. Issue to be considered at DISG level.				
54	What changes need to be made to the network code for it to support separate transmission and distribution roles?	M	RAWG	190404	List of key issues prepared by RAWG. Issue to be considered at DISG level.				Quick 'find and replace' could lead to ongoing problems? Are separate sections for transmission/distribution preferable?
55	What should be the process for modifying the network code? Should NGT retain administrative responsibility?	M	RAWG	190403	Agency and governance RIA considers as one of the options the establishment of a governance entity with responsibility for administering the modifications process.		170504		Current governance arrangements do not take account of IDNs. Incentive problems may arise if NGT required to implement code changes that do not affect its network.

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56	Where should the distribution charging methodology sit with the regulatory framework?	M	DISG	190404	Agency & governance RIA assesses whether to introduce governance entity to administer mods process.			Each DN should have responsibility for the policy development of its own charging methodology, however the secretariat functions associated with processing modification proposals should be carried out by a governance entity.	
56A	Do price changes need to be co-ordinated/controlled between DNs? Should there be an annual price change window?	M	DISG	110304	Issue raised in RAWG				
57	What framework should apply with respect to licensing?	H	DISG	190404	Ofgem considering appropriate licence structure.		Ofgem	Separate transmission and distribution licences are desirable, however this requires primary or secondary legislation. Separating the distribution and transmission activities into an amended GT licence is most pragmatic approach.	
58	Which of Transco's current licence conditions need to apply to DNs, which need to apply to Transco and which should apply to both?	M	RAWG CIWG	080804	RAWG has prepared a list of key licence conditions that require policy consideration. Resolution contingent upon outcome of R&R RIA.				
59	What, if any, new licence conditions should be introduced?	M	RAWG CIWG	080804	RAWG has prepared a list of key licence conditions that require policy consideration. Resolution contingent upon outcome of R&R RIA.	Ofgem	W/C 190404	Potential issues include: non-discrimination conditions and/or obligations on DNs to co-ordinate in emergencies. Potential conditions to flow from discussions in the CIWG.	
59A	Will the NTS and DNs have appropriate statutory rights and obligations under the new structure?	M	RAWG	190404	Issue raised at RAWG.				

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59B	Are changes needed to shipper or supplier licences?	M	RAWG	190404	Issue raised at RAWG. Ofgem considering effect of DN sales on Gas Suppliers SLC21 (obligation to publish transporter details).				
61	What authorised areas should be attached to the licences of DNs and Transco?	M	RAWG	030204	Issue amended as a result of discussion at DISG. Ofgem and NGT to develop proposals and present them to the RAWG.	Ofgem & NGT			NGT's statutory duties could be affected.
62	What action is required to ensure that Transco's rights of entry for the purposes of site isolation are available to the DNS?	H	RAWG	020204					Is this right conferred by the Gas Act?
62A	How will the arrangements for site isolation operate in practice?	M	DISG	010304					This is a Network Code issue associated with disconnections.
63	What governance procedures should apply to the offtake agreement?	M	DISG	190404	NGT proposals are set out in its draft Offtake Code.			Ofgem should approve changes and there should be an industry consultation process. Only NGT/DNs could raise modification proposals.	Arrangements need to enable transparent governance procedures. Risk of lack of clarity in delineation of roles of OA/NC.
64	What governance procedures should apply to the distribution charging methodologies?	M	DISG	190404	Agency and governance RIA considers as one of the options the establishment of a governance entity with responsibility for administering the modifications process.		170504		
65	What governance procedures should apply to the credit rules for distribution charges?	M	DISG	190404	Issue raised in Agency and Governance RIA. Responses to be provided to Ofgem by 170504.		170504		
66	Will proposals give rise to a need for primary and/or secondary legislation to be implemented?	M	RAWG	111203					
67	What transitional arrangements are required to move to a new regime?	M	RAWG	040204	Transitional arrangements are addressed in NGT's UNC document.				How will shippers' existing rights and liabilities transfer to new DN owners?

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68	Will the Directions and Determinations issued to Transco under Section 12 of the Gas Act apply to the new legal entities?	L	RAWG	100204	May be necessary to reissue directions and determinations to new legal entities (issue relates to wet gas testing & CV measurements).				