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Office of Gas and Electricity Markets  
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**Date** 17 May 2004

Dear Sonia,

**National Grid Transco – Potential sale of network distribution businesses  
Allocations of roles and responsibilities between transmission and  
distribution networks**

Thank you for giving EDF Energy the opportunity to respond to the consultation on the allocations of the roles and responsibilities between transmission and distribution in the event of a sale of a network distribution business.

We note that Ofgem's remit is to ensure that any distribution network (DN) sales will be beneficial to the customer. EDF Energy believes that the sale of one or more distribution networks represents no clear benefit to the customer.

We note the three proposed options: (i) active, (ii) passive and (iii) hybrid. An active DN structure would represent the greatest change to the industry and therefore the most cost. NGT has spent time and money this year moving all its regional control centres to one central location. If distribution networks are sold off under the active model then each DN owner will have to set up a control centre for each distribution network at great cost. These costs are tied up within the DN sales process but could be ultimately borne by customers. Ofgem has stated that all distribution network owners (DNOs) will be under a price control and that the DNOs will not be allowed to pass these costs on. We believe however that DNOs will ultimately recover any expenses with respect to setting up independent control centres, and it should be noted that DN control centres are to be set up to a telemetry specification dictated by NGT.

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It has been reported that the HSE believes the safety becomes more complex under option 3 as accountabilities are not clear. We believe that this could also occur under option 1 where from day one a System Operation Managed Service Agreement (SOMSA) is set up to help the new distribution owner run its network. The SOMSA is expected to be in place for approximately 18 months. We believe that it may be difficult during that period to determine who is responsible for the safety of the distribution network.

We do not support any of the proposed options but believe that option 2, the passive model, represents minimum impact to the shipper community. We favour a passive distribution network role where innovation and efficiencies can be driven through in the maintenance and investment work. We do not understand why this would be difficult to draft contractually. Transco is accountable for the investment and maintenance planning and the DNO is accountable for fulfilling the requirements of these plans.

We believe that the hybrid role will be very difficult to operate contractually as Transco would be incentivised to carry out distribution network interruption whereas the network operator would be responsible for contracting for interruption. We believe that this would be very difficult to operate contractually and more difficult than option 2.

We have concerns regarding safety arrangements if distribution networks are to be independently owned. In the event of distribution supply failure, it is unclear how the independent DNO would be able to call on staff or how the relevant DNO would be compensated? As noted by Transco in Exercise Krakatoa, a distribution supply failure could take over 200 days to rectify and involve more fitters than NGT currently employs.

We would like Ofgem to note that not all potential purchasers will already have electricity or water distribution assets, as stated in paragraph 3.18, so this economy of scale may not occur and is not relevant.


We note that the proposed distribution network sale represents increased contractual complexity for shippers and customers as there are more players in the market and this will result in increased costs.

We believe that the international experience from the electricity market is not relevant to gas. The gas market “fails safe” by ensuring that there is still gas in the pipelines whereas electricity “fails safe” by ensuring that there is no energy.

Generally, we are not convinced that the selling of one or more distribution networks will bring benefits to customers. It will inevitably result in increased costs to the shipper community in the form of increased complexity in the day to day operations of the gas market. We also believe that there are legitimate concerns over safety and emergency procedures in the event of a failure.

We hope that you will find these comments helpful. If you would like to discuss any of the issues raised in our response please contact myself or Helen Bray on 020 7752 2518.

Yours sincerely

A handwritten signature in black ink, appearing to read 'D. Linford', with a long horizontal flourish extending to the right.

**Denis Linford**  
**Head of Regulation**