

**National Grid Transco – Potential sale of gas  
network distribution businesses**

**Agency and governance arrangements**

**Decision document**

May 2004      120/04

## **Summary**

In April 2004 Ofgem issued a Regulatory Impact Assessment (RIA) for consultation on the arrangements for governance and agency. This RIA followed extensive consultation on these issues through a number of industry workgroups. The purpose of this document is to outline the views received from respondents on the options included in the RIA and to set out the Gas and Electricity Market Authority (the Authority) conclusions.

These conclusions will be incorporated within Ofgem's broader RIA on whether the Authority should consent to Transco's proposed disposal of DNs.

## ***Background***

The potential sale by National Grid Transco (NGT) of one or more of its gas distribution businesses has potentially very significant implications for the systems and processes that currently exist throughout the gas supply chain. It risks fragmenting the systems, processes and interfaces that exist between the National Transmission System (NTS) and Distribution Networks (DNs) and the users of those networks, namely shippers. This would potentially impose significant costs on shippers and suppliers and may also impact negatively on wholesale and retail gas markets, ultimately to the detriment of customers.

In view of the potential cost and competition impacts associated with the proposed sale of DNs, the concept of an agency was introduced that could provide many of the services that Transco currently provide centrally as the owner and operator of all the gas networks.

## ***Key issues for consideration***

In the April RIA, Ofgem outlined a number of key issues for consideration in determining the scope of functions that would be included within the agency arrangements. These key issues included:

- **cost mitigation.** In establishing the Agent it was important to consider the extent to which the costs for customers could be mitigated through the creation of a single service and systems interface for all shippers and suppliers to manage their interactions with multiple network owners;

- **effect on competition.** Ofgem considered that it was important that the effect on wholesale and retail competition was carefully assessed. It was also considered important to understand the extent to which through placing certain services within the Agent competition in the provision of services would be stifled;
- **accountability.** A further consideration was that all functions of the Agent should be clearly defined. Ofgem viewed this should assist in providing clear incentives on all parties undertaking activities to ensure their efficient provision which ultimately should reduce costs to industry and customers; and
- **quality of service.** Ofgem believed that the creation of an Agent was not costless, as it would prevent customers obtaining the quality of services and associated efficiency benefits that could have been were individual network owners to provide these services in an environment of comparative regulation. Ofgem viewed that this risk could be mitigated to some extent through regulatory incentives and standards of service.

In the RIA Ofgem additionally highlighted a number of key issues for the governance arrangements. In particular, it was important that the arrangements should seek to avoid undue discrimination between parties including DNs retained by Transco and independent DNs. Ofgem additionally set out the principles which any governance arrangements should meet. These included transparency, inclusiveness, effectiveness and efficiency.

### ***Options for the role of the Agent***

The RIA considered seven options for governance and agency, which are described below.

#### **No agency option**

Under the “no agency” option, no Agent would be established following the sale of a DN. Instead, each network operator would be responsible for managing all its own systems, including those for supply point administration, and the NTS would manage the Network Code change process arrangements.

Ofgem’s RIA identified a significant number of costs associated with the no agency option and that there was a risk of undue discrimination in the management of Network Code modification proposals. The significant costs arose as there was a risk of

fragmentation in relation to a number of key processes, including supply point administration systems, settlement and operational systems and distribution charging methodologies. This potential for fragmentation would also impact negatively on retail and wholesale competition.

On the benefits side, accountabilities would be clearly defined under this option, and there would be scope to capture the potential improvements in quality of service resulting from comparative competition.

### **Option A – Transco’s initial proposal**

Under this model the Agent would be responsible for supply point administration, gas balancing cash collection and credit management, transportation invoicing and certain other functions.

Ofgem considered that this approach represented significant benefits to customers compared to the no-agency approach. The key benefits of Option A were that accountabilities would be clearly defined, and the establishment of an Agent would be likely to reduce the risk of a negative impact on wholesale and retail competition.

Ofgem considered that these benefits also applied to all further options.

Ofgem’s RIA identified a number of costs associated with the Option A. There was a risk of undue discrimination in the handling of Network Code modification proposals and a risk of fragmentation in respect of distribution charging methodologies. Furthermore, the fact that AT-link and RGTA systems were outside of the remit of the Agent might induce a higher degree of fragmentation of those systems.

### **Option B – Introducing a ‘Governance Entity’**

This option established a governance entity to administer the Network Code modification process and additionally included demand estimation within the scope of the agency. There were two alternatives within Option B – Option B1, where responsibility for transportation and distribution charges cash and credit collection rested with the network owner, and Option B2, where this function was included in the scope of the Agent.

In respect of Option B, Ofgem identified potential costs associated with accountability for credit and cash collection and AT-link and RGTA settlement systems fragmentation. Ofgem additionally considered that there was a reduction in accountability through placing credit and cash collection within the scope of the Agent. Option B had the

benefit, in Ofgem's view, that the governance entity would promote non discrimination in the treatment of modification proposals.

### **Option C – Including AT-link and RGTA**

Under this option, a governance entity would be established and responsibility for credit and cash collection would rest with the network owner. Further, all UK-link systems, including AT-Link and RGTA, would be transferred to the Agent.

Ofgem considered that the key potential costs associated with Option C over the Option B1 approach were that there could be a lack of accountability for operational data. The key benefit of this approach over and above the benefits of Option B1 was that it would reduce the risk of inefficient industry fragmentation because all UK-Link systems are contained within the Agent.

### **Option D – Allocating systems with responsibilities**

Under this option the existing AT-link system would be split between the Agent and the NTS, depending on whether it is used for operations or settlements processes. A governance entity would be established and transportation cash collection and credit management would be the responsibility of each network operator.

Ofgem considered that the key cost associated with Option D would be that it requires amended systems that could be very costly for both network operators and shippers to implement. The main benefit of this approach was that accountability for the systems that network owners and the settlement agent require respectively would be very clearly defined. Like the electricity market, network owners would be responsible for systems associated with operational data and the Agent would be responsible for all of the market's settlement systems.

### **Option E – Including RGTA systems with the NTS and AT-link with the agency**

Under Option E, the NTS would retain responsibility for the RGTA systems AT-link would become an agency function. A governance entity would be established and transportation cash collection and credit management would be the responsibility of each network operator.

Ofgem considered that the principal costs associated with Option E compared to Option B1 were that it would be likely that Transco would incur costs associated with separating the RGTA from the AT-Link system, particularly given the intended move to the Gemini system. . The benefits of Option E compared to Option B1 were viewed to

be that accountability for the NTS capacity systems would be clearly defined and that it would prevent fragmentation of settlement and nominations systems.

### **Option F - Broadest agency**

Under this version of the agency, the agency would manage the RGTA and AT-Link systems, transportation cash collection and credit arrangements. In addition, it would also take on the activities of connections and metering.

The main costs associated with Option F were that there was a lack of accountability in relation to credit and cash collection, system accountability, and connections. In addition, it could potentially have a marginal negative effect on competition in metering and connections and it would limit the potential for competitive provision or provision of the services in an environment of comparative regulation. However, Option F had benefits in terms of non-discrimination and limiting the potential for fragmentation.

Ofgem indicated that its initial view was that it was minded to adopt either Option E or Option B1.

### ***Respondents' views***

Respondents had no clear majority preference for a particular option. However, a significant number of respondents expressed a preference for Option F on the basis that it would provide for industry stability and minimise the costs of fragmentation for shippers. Other respondents generally opted for either Option B or Option E.

Several respondents also indicated that the agency should be responsible for credit management and cash collection in respect of transportation charging as opposed to individual DNs. The majority of respondents supported the creation of a governance entity, although many said that this should be accompanied by assurances that there would be a common charging methodology across all networks and a single uniform network code.

A number of respondents indicated that they favoured an approach under which cash collection and credit arrangements for network transportation charges would be managed by the agency as it would act as a single interface thereby minimising costs for shippers.

Transco supported Option A. It disputed the need for a governance entity and suggests that allocating systems (such as AT-Link) to the agency would lead to substantial costs.

## ***Ofgem's views***

After careful consideration of all respondents' views, the Authority has decided that Option C is the most appropriate scope of the agency functions.

Ofgem considers that the DN Sales process could not proceed in the absence of an agency function as the potential costs to customers could outweigh the benefits in all sale scenarios. Also, Ofgem considers that the establishment of a governance entity is important on the basis that it would reduce the potential for discrimination and make the governance process more transparent.

In the April RIA, Ofgem indicated that it has some initial preference towards Option E (as well as B1) in which AT-link systems would be under the remit of the Agent but RGTA systems would be retained by the NTS. Since the publication of the RIA, Transco has indicated that the split between AT-link and RGTA systems is not feasible in the short term because of the Gemini project (that seeks to combine these systems). Given respondents views on the importance of placing AT-link systems in the agency, Ofgem considered that Option C should be adopted. However, Ofgem still remains of the view that Option E would be more preferable as the RGTA systems are solely utilised by the NTS. Therefore Ofgem will keep this issue under review and if it considers that it is appropriate in due course to remove these systems from the agency, the costs associated with this would be borne by NGT's shareholders rather than customers.

Ofgem notes the views of most respondents that credit and cash collection should be undertaken by the Agency. However, based on information provided by shippers the cost savings associated with placing cash and credit collection in the Agency were not material and that there would additionally be a reduction in accountability. Ofgem additionally considered that it was not appropriate to include connections and metering within the scope of the agency as these were not settlement services and additionally, particularly for connections, we were concerned with the potential loss of accountability through placing these services within the agency.

Some respondents considered that network owners should be able to depart from the agency if they wished to provide particular services directly. Ofgem does not consider that this is appropriate in the absence of approval from the Authority. Indeed, we consider that the scope of Agent should be clearly defined with the

## ***Way Forward***

This document sets out the high level decision on the appropriate scope of the agency and governance arrangements. However, it will be necessary to consider the arrangements in significantly more detail ahead of any potential sale by Transco of one or more DNs. In particular, issues such as the governance of the governance entity and the agency and the detailed modification rules will need to be developed. These issues will be progressed through the industry workgroups. Ofgem has a forward programme on supply point administration that is an important component of the development process.

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# 1. Introduction

## ***Purpose of document***

- 1.1. In April 2004 Ofgem consulted upon a regulatory impact assessment (RIA) on the options for the development of appropriate agency and governance arrangements in the context of Transco's proposal to sell one or more of its distribution network (DN) businesses.
- 1.2. The RIA was intended to contribute to the development of an operational, commercial and regulatory framework that could support a divested industry structure and was built on progress made in workgroup discussions.
- 1.3. The purpose of this document is to outline the views received from respondents on the options included in the RIA and to set out Ofgem's conclusions.
- 1.4. These conclusions will be incorporated within Ofgem's broader RIA on whether the Gas and Electricity Market Authority (the Authority) should consent to National Grid Transco's proposed disposal of DNs.

## ***Background***

- 1.5. In May 2003, Transco publicly announced that it would consider the sale of one or more of its DNs if it were to maximise shareholder value. Any such sale would require the consent of the Authority, the Health and Safety Executive and the Secretary of State.
- 1.6. In July 2003 Ofgem issued a consultation document on the regulatory, commercial and operational changes required to facilitate the sale of one or more DNs.<sup>1</sup> Following this consultation in December 2003, Ofgem issued its Next Steps document setting out responses to the July consultation, Ofgem's current views, and a proposed way forward for considering Transco's proposals

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<sup>1</sup> *National Grid Transco – Potential sale of network distribution businesses, A Consultation Document.* Ofgem, July 2003.

including the establishment of workgroups to take forward the development of a commercial and regulatory framework.<sup>2</sup>

### **Workgroup processes**

- 1.7. Since the release of the December document, Ofgem has established several workgroups including a Development and Implementation Steering Group (DISG), a Commercial Interfaces Workgroup (CIWG), a Regulatory Architecture Workgroup (RAWG) and an Agency Workgroup (AWG) to continue the proposed DN sales consultation process.
- 1.8. Each of these workgroups has met regularly since January. The workgroups have been successful in providing industry participants with an opportunity to contribute to the development of a possible commercial and regulatory framework that would enable the implementation of Transco's proposals, should Transco obtain the necessary consents.
- 1.9. The discussions that have occurred through the workgroup process have highlighted the importance of two key issues to the development of the commercial and regulatory framework, namely:
  - ◆ the allocation of roles and responsibilities between Transco, as owner of the national transmission system (NTS), and each of the DNs (both retained and independent); and
  - ◆ the development of appropriate governance and agency arrangements for shipper (and customer) interfaces, particularly focusing on supply point administration frameworks.
- 1.10. In light of these discussions, in March 2004, Ofgem issued a way forward document indicating that it would be appropriate to develop for consultation separate RIAs on these two issues.<sup>3</sup> Ofgem considered that the release of these RIAs would be consistent with the Authority's duty to carry out impact assessments.<sup>4</sup>

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<sup>2</sup> *National Grid Transco – Potential sale of network distribution businesses, Next Steps*. Ofgem, December 2003.

<sup>3</sup> *Potential sale of gas distribution networks, Ofgem update on way forward*, Ofgem, March 2004

<sup>4</sup> This duty is contained in section 5A of the Utilities Act 2000.

1.11. The way forward document indicated that Ofgem would issue its consultation on these RIAs in the event that the Authority took the decision at its April meeting that it is appropriate for work to continue on the proposed DN sales project. As the Authority made an affirmative decision, the RIAs were issued for consultation.

1.12. This document is structured as follows:

- ◆ Chapter 2 sets out the objectives that need to be considered in developing appropriate agency and governance arrangements;
- ◆ Chapter 3 summarises the options set out in the RIA and Ofgem's cost and benefit analysis;
- ◆ Chapter 4 describes the views received from respondents to the consultation on the roles and responsibilities RIA;
- ◆ Chapter 5 sets out Ofgem's conclusions; and
- ◆ Chapter 6 outlines a way forward.

1.13. If you wish to discuss any aspect of this paper, Mark Feather (telephone 020 7901 7437) or Jessica Hunt (telephone 020 7901 7431) would be pleased to help.

## 2. Objectives

- 2.1. This Chapter sets out the objectives that the Authority must fulfil when it decides whether to consent to the DN sales process. It additionally sets out Ofgem's objectives with respect to determining an appropriate set of agency and governance arrangements following a DN sale.

### **Regulatory approval process**

- 2.2. In order to dispose of a DN asset, Transco will require the consent of the Authority in accordance with amended standard condition 29 of its Gas Transporter's (GT) licence.<sup>5</sup> In deciding whether to give consent, the Authority must act in accordance with its statutory objectives and duties as set out in the Gas Act as well as other public law duties.
- 2.3. The principal objective, set out in section 4AA of the Gas Act, provides that the Authority is 'to protect the interests of consumers in relation to gas conveyed through pipes, wherever appropriate by promoting effective competition between persons engaged in, or in commercial activities connected with, the shipping, transportation or supply of gas'.
- 2.4. Having regard to these objectives, when deciding whether to consent to the disposal of one or more DNs, the Authority will assess, on the basis of the evidence available, whether it is likely that present and future customers' interests are protected.

### **Objectives of the agency and governance RIA**

- 2.5. When deciding on an appropriate agency and governance framework, Ofgem considers the Authority's principal objective as set out above, as well as its general duties. In this context, Ofgem considers that its general duty to promote efficiency and economy on the part of licence holders to promote the efficient use of gas conveyed through pipes as outlined in sub-section 4AA(5)(a) of the Gas Act, has particular relevance to the determination of an agency and

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<sup>5</sup> This condition also provides the Secretary of State with a power of veto over any proposal on the part of Transco to dispose of a transportation asset to the extent that it comprises a significant part of the gas conveyance system in Great Britain.

governance framework in the context of DN sales. In this respect, in discharging this duty it is important for Ofgem to consider to what extent costs to consumers as a result of DN sales can be appropriately mitigated through the creation of agency and governance arrangements. Ofgem considers its general duties to ensure that all reasonable demands for electricity and gas are met and to secure a diverse and viable long-term energy supply.

2.6. In addition to meeting Ofgem's statutory duties, the post-sale industry structure must establish a relationship between the NTS and DNs that permits each network owner to fulfil its own statutory and licence obligations. These include:

- ◆ the duty of each GT to develop and maintain an efficient and economical pipeline system (sub-section 9(1)(a) of the Gas Act); and
- ◆ the duty of each GT to avoid any undue preference or undue discrimination in the terms on which it undertakes to convey gas (sub-section 9(2)(b)).

2.7. Further, as set out in standard condition 4D of the GT licence, each GT has an obligation to ensure that it conducts its transportation business in a manner best calculated to secure that neither it nor its affiliates and related undertakings obtain any unfair commercial advantage, including, in particular, any advantage from a preferential or discriminatory arrangement. It will be important, in this respect, for Ofgem to consider the potential for discrimination by Transco in favour of any of its retained distribution businesses and whether agency and governance arrangements can be used to minimise the potential for this discrimination.

## 3. Summary of RIA

3.1. This Chapter outlines a summary of the key issues addressed in the RIA and the options for establishing appropriate governance and agency arrangements. It has the following Sections:

- ◆ background, which provides high-level context to the decision document;
- ◆ agency – key issues, in which we set out the key issues that need to be considered in determining the scope and remit of the agency;
- ◆ governance – key issues, that summarises the key issues to be considered in determining appropriate governance arrangements;
- ◆ options for agency and governance, in which we describe the proposed options for the agency structure and governance arrangements.
- ◆ Network Code and charging methodology governance options, outlining options relating to the governance of the Network Code, and for each network's charging methodology arrangements.
- ◆ Ofgem analysis of different options for agency and governance that concludes the Chapter with a description of Ofgem's detailed assessment of each agency and governance option.

### ***Background***

3.2. The potential sale of one or more DNs has significant implications for the systems and process interfaces that currently exist between shippers, suppliers and Transco. In this respect, the sale of DNs could require changes to data management, supply point administration (SPA) and system operation information interfaces as shippers and suppliers may need to develop different processes and systems to interface with separately owned DNs. The creation of such fragmented processes and systems could potentially impose significant costs on shippers and suppliers and may also create barriers to entry to wholesale and retail markets, which would ultimately flow through to customers.

- 3.3. Conversely, the impact of comparative regulation following the sale of one or more DNs may also produce innovation and improvements in the delivery of many of the services currently provided by Transco. These benefits would ultimately flow through to customers in terms of reductions in allowed DN revenue set through the price control process.
- 3.4. In view of the potential cost impacts associated with separating the ownership of DNs, the concept of an agency has been introduced as an entity that could provide many of the services currently provided by Transco on a centralised basis. The purpose of creating this entity would be to minimise and mitigate the costs associated with moving to a more fragmented ownership structure for the industry.
- 3.5. An additional issue that needs to be considered in the context of a DN sale is that Transco's proposals to retain ownership of one or more DNs will create the potential for it to discriminate in favour of those DNs that it continues to own over those that it has sold. As such, consideration needs to be given to establishing governance arrangements that minimise the potential for discrimination to occur.

### ***Agency – Key issues***

- 3.6. In establishing the agency, careful consideration needs to be given to the nature and range of services that it should provide. Ultimately, the scope of these services will be determined by the extent to which the costs that are mitigated by centralising certain services through the proposed agency outweigh any potential benefits associated with having each DN owner provide these services as a separate entity.
- 3.7. There are four key issues that need to be considered in determining the scope of the agency and the services that it should provide. These are discussed in the following subsections:
- ◆ cost mitigation;
  - ◆ effect on competition;
  - ◆ accountability; and

- ◆ quality of service.

### **Cost mitigation**

- 3.8. In the absence of agency arrangements, costs could arise as a result of shippers and suppliers being required to develop different systems to interface with separately owned DNs and the NTS. Therefore, in establishing the Agent it is important to consider the extent to which these costs can be mitigated through the creation of a single service and systems interface through which shippers and suppliers can manage their interactions with multiple network operators.

### **Effect on competition**

- 3.9. Ofgem considered that, in the absence of agency arrangements, the costs imposed on shippers and suppliers associated with industry fragmentation may discourage market entry and weaken competition. As such, the creation of an agency may minimise any such negative impacts by preserving a single interface between network operators and shippers and suppliers.
- 3.10. Conversely, to the extent that the Agent, as a monopoly, is solely responsible for providing services and systems there is a risk that this could hinder innovation and competition (through comparative regulation) in the development of new services, systems and technologies. These risks can however be addressed to certain extent through effective regulation and the development of appropriate incentive schemes.
- 3.11. Further, careful consideration needs to be given to allocating certain functions, such as metering and connections, to the Agent to the extent that this strengthens the position of incumbent metering and connection service providers.

### **Accountability**

- 3.12. Functions should be allocated between the NTS, DNs and the Agency in a way that ensures that responsibilities are defined clearly. Clarity in accountabilities and responsibilities should assist in providing clear incentives to parties undertaking activities to ensure their efficient provision which should reduce costs to industry and customers.

## **Quality of service**

- 3.13. As noted above, the creation of a monopoly agent has cost implications as it would prevent customers obtaining the quality of services and associated efficiency benefits that could have otherwise accrued through individual DNs providing these services in an environment of comparative regulation. Careful consideration therefore needs to be given to these potential effects, although it is noted that these concerns can be partly addressed through regulatory incentives and standard of service.

## ***Governance – Key issues***

- 3.14. As noted above, Transco's proposals to retain ownership of one or more DNs following a potential sale will also create the potential for it to discriminate in favour of those DNs that it continues to own, particularly in the context of the administration of Network Code governance processes.
- 3.15. Any new governance arrangements that are established should seek to avoid undue discrimination between the parties included, in this case, retained DNs and independent DNs. Governance arrangements should also meet the following additional principles:
- ◆ transparency. The arrangements should provide for transparent decision making processes.
  - ◆ inclusiveness. The arrangements should permit contributions and input from all interested parties on key decisions;
  - ◆ effectiveness. The arrangements should balance the need for timely decision making with a thorough consideration of issues; and
  - ◆ efficiency. The arrangements should avoid imposing undue administrative costs on industry participants and ensure that issues are resolved in a timely manner.

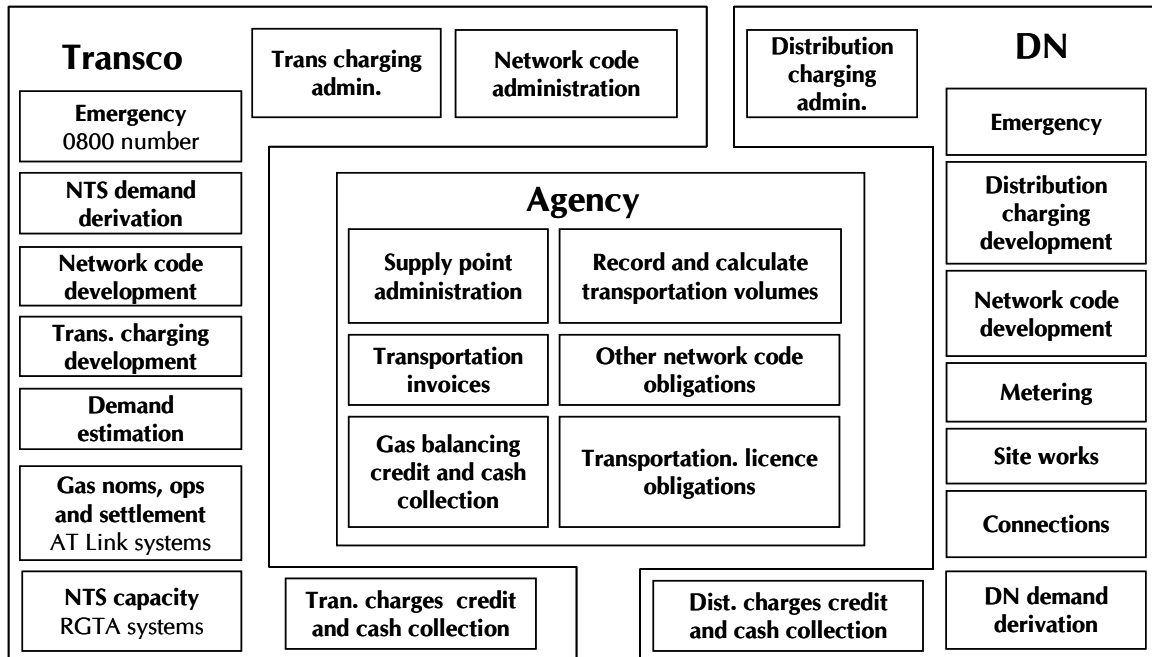
## Options for agency and governance

3.16. In this section we summarise Options A to F for the agency and governance arrangements as described in the April 2004 RIA.

### Option A: Transco's initial proposal

3.17. Option A represents Transco's initial proposal. Under this option the agency undertakes a narrow range of services on behalf of the networks including supply point administration, and issuing transportation invoices. The split of activities between Transco, DNs and Agent under Option A is shown in Figure 3.1. The attribution of activities refers to the party actually delivering that service and not the party who will have the primary obligation in relation to that service.

Figure 3.1: Split of activities under Option A



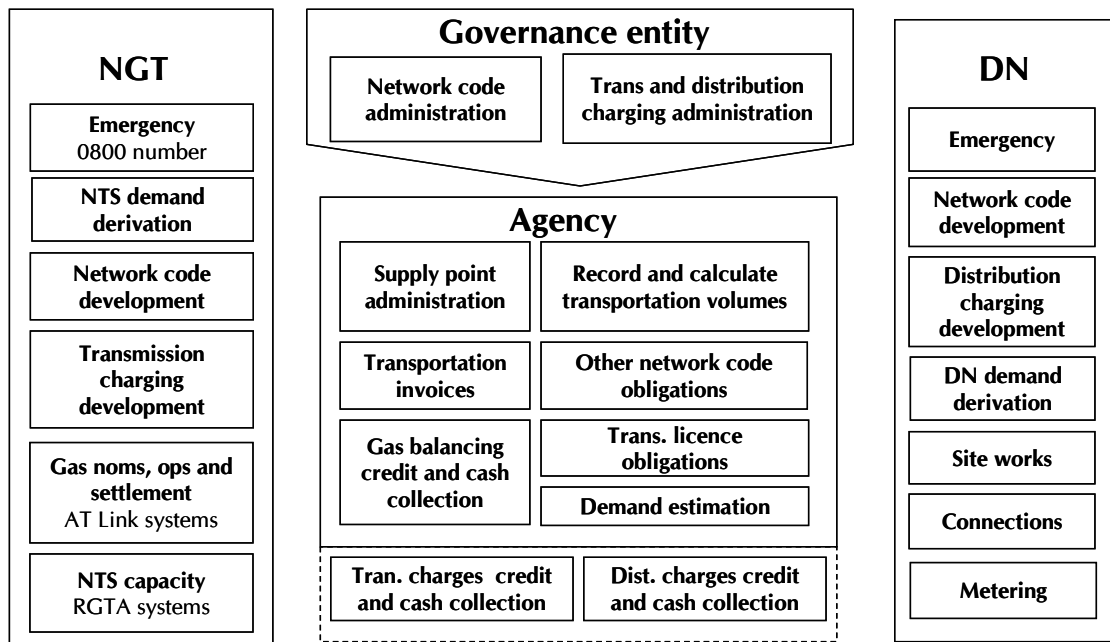
### Option B: Introducing a Governance Entity

3.18. Under Option B, a 'governance entity' is introduced with the aim of addressing potential concerns surrounding Transco's ability to discriminate in the Network Code modification process post DN Sales. Responsibility for the development of

network code and charging methodology changes would however, as under all options, remain with the relevant network owners.

- 3.19. In its April 2004 RIA, Ofgem also noted that it would, most probably, only be possible until 2007/8 for the Governance Entity to be owned by Transco, Transco's Retained DNs (RDNs) and Independent DNs (IDNs). The initial proposal is that the Governance Entity would be an unincorporated joint venture between Transco, RDNs and IDNs. Careful consideration would need to be given going forward to the funding, ownership and governance arrangements that would apply to any governance entity going forward.
- 3.20. Under Option B, Demand estimation would also become an agency activity rather than a Transco activity on the basis that this involves systems that primarily support settlement activities. In particular, by placing this activity within the agency, it was considered that this would ensure a consistent approach to demand estimation across networks
- 3.21. There are two alternative approaches under Option B to cash collection and credit management for distribution and transmission charges. Under one approach these functions would be included in the scope of the agency. The alternative approach is to have the network owners manage this function themselves. The split of activities is as shown in Figure 3.2.

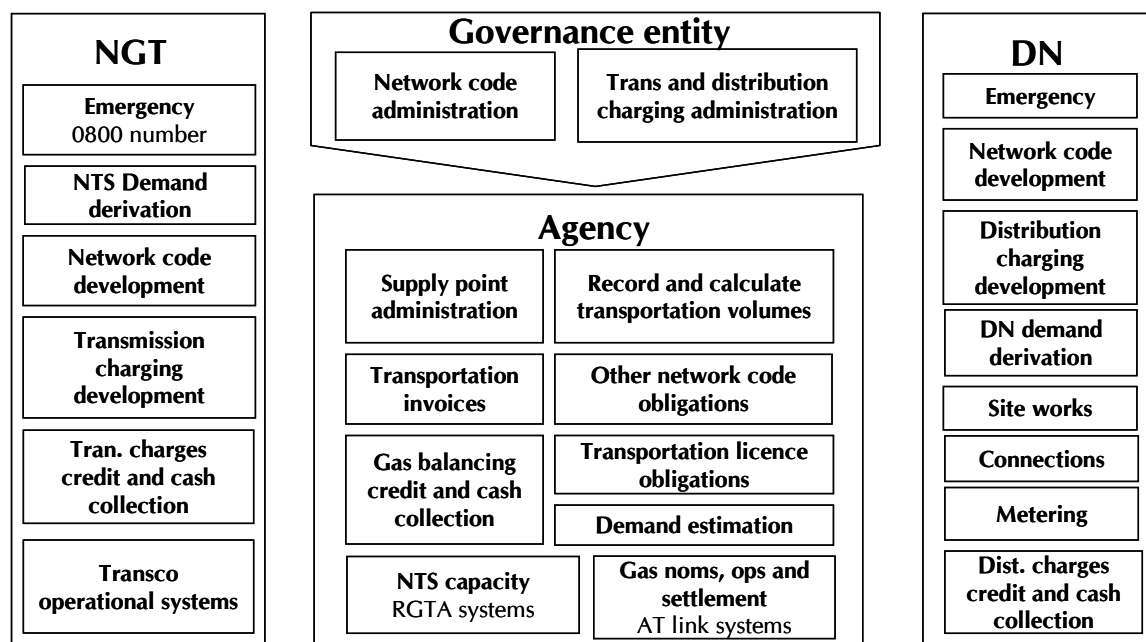
Figure 3.2: Split of activities under Option B



### ***Option C: Including AT-link and RGTA in the Agency***

3.22. Under Option C, the agency would be allocated responsibility for managing Transco’s existing AT-link and RGTA systems in addition to the functions allocated in Option B. This was on the basis that it would be desirable to prevent future fragmentation of all UK-link systems, many of which are associated with settlement activities. The Governance Entity would also be created along the lines described above in Option B. The split of activities is as shown in Figure 3.3 below.

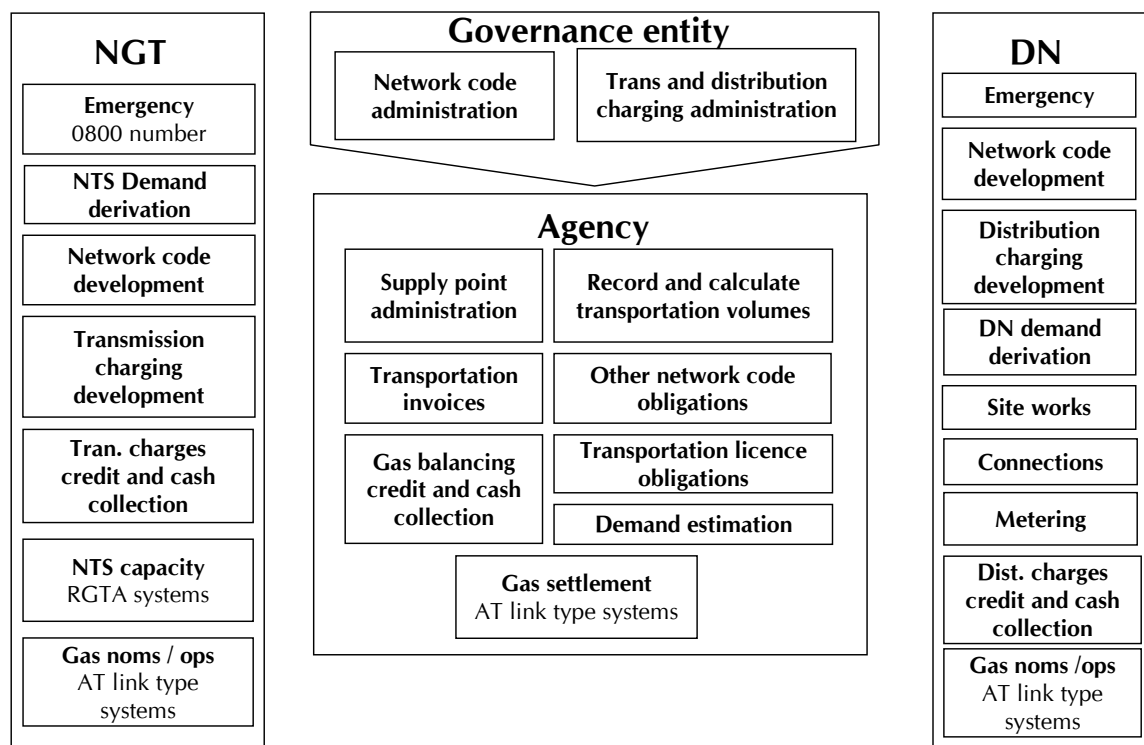
Figure 3.3: Split of activities under Option C



### ***Option D: Allocating systems with responsibilities***

- 3.23. Under Option D, new systems would be developed to split the information currently contained within AT-link between operational data and data that are primarily used in settlement, with the former being placed with the respective system operators, namely Transco's NTS business, RDNs and IDNs, and the latter being placed in the agency. Under this approach, the RGTA systems associated with NTS capacity provision would be under the operation of Transco, as operator of the NTS.
- 3.24. The agency would also undertake the functions outlined in Option B and the Governance Entity would be established. The split of activities under Option D is set out in Figure 3.4, below.

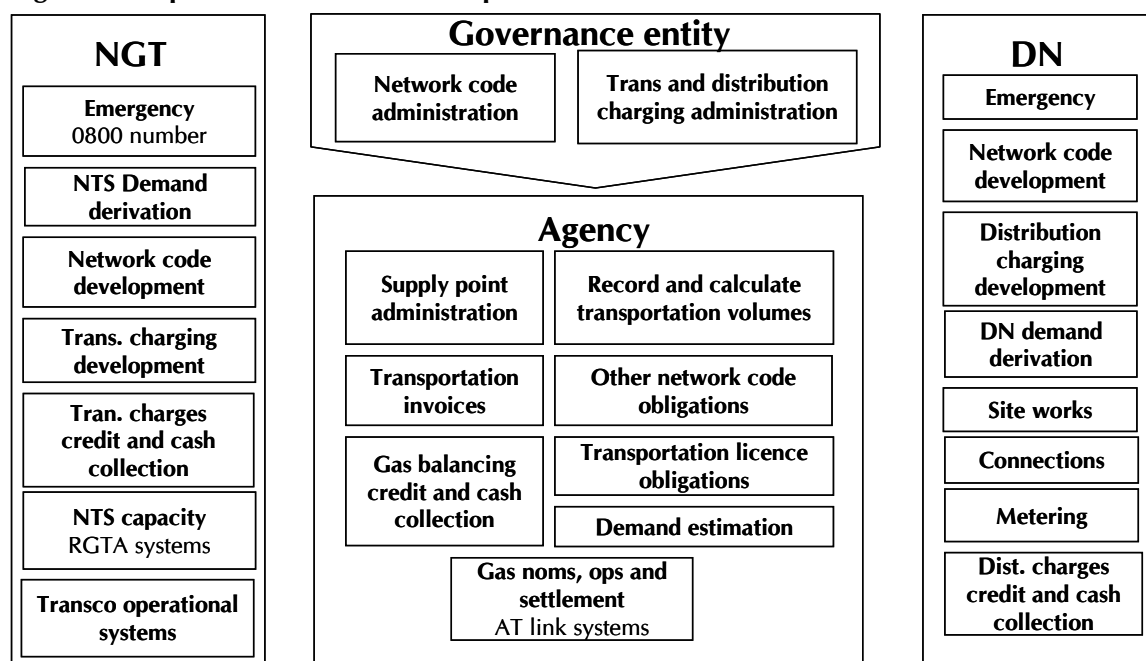
Figure 3.4: Split of activities under Option D



***Option E: including RGTA systems with the NTS and AT-link with the agency***

3.25. Under this option, RGTA systems would be retained by Transco as it is primarily a capacity trading platform associated with system operation, whilst the AT-link system would be allocated to the agency on the basis that this system generates information that is primarily used to support the settlements process. The agency would also undertake those functions assigned to it under Option B and the Governance Entity would be created to manage network code and charging methodology change processes. Option E is shown below in Figure 3.5.

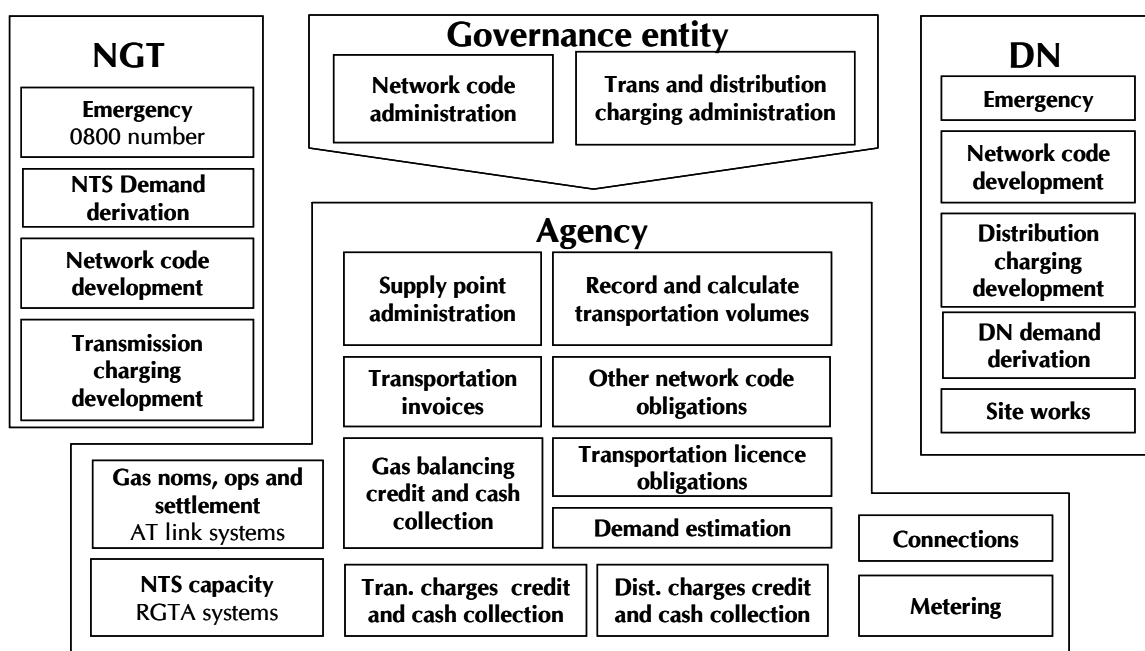
Figure 3.5: Split of activities under Option E



### ***Option F: Broadest agency***

3.26. Under this option, the agency would manage the AT-link systems, the RGTA systems, as well as transportation charging credit management and cash collection. In addition, the agency would act as a single point of contact for shippers for metering and connections. In this respect, the agency would be responsible for directing shippers to the relevant meter provider of last resort and the connection service provider of the relevant DN. The agency would also perform the same services as outlined under Option B and the Governance Entity would be created. Figure 3.6 sets out the split of activities under this approach.

Figure 3.6: Split of activities under Option F



## ***Network Code and charging methodology governance options***

3.27. In the April 2004 RIA Ofgem also discussed whether it is appropriate to restrict the governance arrangements for the Network Code and for each network's charging methodology arrangements. In particular, restrictive governance arrangements could be created to minimise the potential for the fragmentation of network code and charging arrangements across networks.

## ***Ofgem analysis of different options for agency and governance***

3.28. In its RIA, Ofgem analysed each of the options against the key issues outlined above. This section briefly outlines the outcomes of Ofgem's analysis and evaluates each option against the key issues. A table summarising this analysis is included in Appendix 1.

## **Cost mitigation**

3.29. Ofgem's analysis in the RIA suggested that all agency options deliver significant benefits over the 'no agency' option. The greater the scope of the Agent's role, the larger the potential for cost mitigation as the risk of fragmentation would be reduced. Consequently, Option F offered the greatest potential for a reduction in the costs borne by shippers and suppliers; however, even under a shallower role for the Agent, Ofgem considered that it would be possible to ensure cost mitigation through effective governance arrangements.

## **Effect on competition**

3.30. Ofgem's analysis suggested that the creation of the agency delivers significant benefits for wholesale and retail competition relative to the 'no agency' option. Ofgem considered that each of the options for an agency had benefits in terms of wholesale and supply competition. In respect of metering and connections, however, Option F was expected to have a marginal negative impact on competition because the agency, not the relevant network owner, would provide the customer interface for the provision of connection and meter providers of last resort.

## **Accountability**

- 3.31. Ofgem rated each option positively in relation to accountability if the party that performed the function was also the party that was responsible for ensuring that the function was carried out effectively. In particular, accountability was considered in respect of credit and cash collection, settlement and operational systems, and connections.
- 3.32. In general, accountabilities were well aligned. However, Option B2 did not align accountabilities with respect to credit arrangements and cash collections, Option C gave rise to some minor disadvantages for settlement and operational systems, and Option F (the broadest agent) gave rise to costs in relation to all categories of accountability.

### ***Quality of service***

- 3.33. In respect of quality of service, Ofgem considered that the creation of an Agent could potentially prevent customers obtaining any of the quality of service and associated efficiency benefits that would have otherwise accrued were these services to be provided in an environment of comparative regulation. Hence, the 'no agency' option rated most highly in relation to quality of supply as it allows these potential benefits would be able to be fully captured.
- 3.34. As the Agent's role expands, there is an increasing risk of costs associated with reduced levels of quality of service. However, Ofgem noted that these could be mitigated by appropriate incentive based regulation.

### ***Non-discrimination in the modifications process***

- 3.35. Ofgem considered that a network code modifications process that was controlled by a single entity (i.e., Transco) could potentially give rise to costs associated with discriminatory conduct. Consequently, a number of the options contemplated the creation of a governance entity to mitigate the risk that Transco NTS could discriminate against IDNs in the modification process.
- 3.36. All options that included a governance entity performed favourably in relation to non-discrimination. However, the 'no agency' option and Option A, which do not incorporate a governance entity, received negative ratings.

## 4. Respondent's views

4.1. This Chapter summarises the views, and highlights the key issues raised by respondents to the April 2004 consultation. We provide an overview of respondents' preferences for each option, followed by an outline a number of general issues including:

- ◆ Credit and cash collection;
- ◆ Demand estimation;
- ◆ Agency and governance entities;
- ◆ Funding, ownership and governance;
- ◆ Scope of agency arrangements;
- ◆ Network code and charging methodology governance arrangements;
- ◆ RIA methodology; and
- ◆ DN sales cost/benefit analysis.

### ***Assessment of Options***

4.2. Of the options proposed, the majority of respondents expressed a preference for either Option F or Option B. A number of respondents also expressed a preference for Option E. Transco indicated that it continued to support Option A. Some respondents also suggested further options and combinations. In the remainder of this subsection, we briefly discuss the views of respondents relating to each option.

#### **Option A**

4.3. Transco was the only respondent that supported Option A. It indicated that it best protects the interests of customers and avoids the creation of a new separately licensable activity which would create unnecessary costs and added complexity.

- 4.4. Transco indicated that it should retain AT-link and RGTA systems from Day 1 as it is the primary user of the systems. It recognised that in the longer term it may be appropriate to consider separate ownership of the systems. Transco's comments on the other options and issues are considered in more detail below.

### **Option B**

- 4.5. The respondents that expressed a preference for Option B expressed a number of different reasons for their support. One indicated that Transco should retain control of AT-link and RGTA systems as they are important to system operation. Another indicated that it provided the greatest flexibility in terms of providing DN owners with an opportunity to innovate and obtain increased efficiencies. Another indicated that Option B is the lowest cost solution relative to Option E as fewer system changes are required.

### **Option C**

- 4.6. One respondent expressed a preference for Option C on the basis that it ensures that all settlement activities and systems are managed by the agency with administration of code, and charging methodology changes being managed by the governance entity. This respondent emphasised settlement data is crucial for shippers' balancing and settlement activities and one entity, the agency, should be accountable for the quality of this data. This respondent indicated that this would ensure that Transco and DN owners have incentives to enhance the quality of service provided to shippers.
- 4.7. Transco indicated that Option C is not desirable as Transco expertise would be lost if the agency took on the AT-link and RGTA systems. Transco also emphasised that it is the primary user of these systems in terms of system operation and invoicing.

### **Option D**

- 4.8. Most respondents that commented on Option D indicated that they were opposed to it. Some respondents indicated that it is not viable as the design of new systems would be costly. Transco indicated that it would increase risks of fragmentation as each DN would need to create its own nomination system

which may necessitate shippers having to interface with more than one such system.

### **Option E**

- 4.9. Respondent's views on Option E were varied. Some indicated that more information and analysis was required on Option E. Another indicated that Option E does not address the potential for changes to occur to the exit capacity regime that may create implications for the RGTA system and critical dependencies with the agency's settlement systems.
- 4.10. One respondent in favour of Option E indicated that the costs of splitting the Gemini systems should be borne by Transco. Transco opposed Option E on the basis that it would increase costs to the Gemini programme by approximately £10m.

### **Option F**

- 4.11. Those respondents that favoured Option F indicated that it would provide for stability and would minimise costs to shippers and suppliers as the agency would act as a single point of contact across a broad range of services. Some of the respondents in favour of Option F referred to an OXERA report commissioned by the Gas Forum which concluded that there is a large reduction in the risks associated with fragmentation associated with broader agency options.
- 4.12. One respondent favoured Option F in the event that Option 1 was adopted for the allocation of roles and responsibilities between network owners. This respondent emphasised that it was appropriate for sites, connections and meter provider of last resort to be within the agency arrangements as a single interface would stimulate retail competition. The respondent indicated that excluding these services from the agency would result in these services being provided by fragmented regional monopolies. Another expressed the importance of the agency undertaking metering and connections services to prevent shipper costs increasing through fragmented service provision.

- 4.13. One respondent favoured Option B with connections included in the agency function to ensure that connections are handled in a standard manner through a single process point.
- 4.14. However, some respondents expressed concerns with Option F. A small number commented that Option F would undermine competition in the metering area with one stating that it would reduce accountabilities for cash collection and credit management. A small number stated that it may undermine connections competition. Other respondents indicated that it could restrict the scope for innovation.

### ***Credit and cash collection***

- 4.15. A majority of respondents indicated a preference for the agency to take on the role of cash collection and credit management. Respondents indicated that this would reduce costs for shippers associated with having to enter into separate credit arrangements with individual DN businesses. However, one respondent indicated that the benefits of having a centralised cash collection and credit management function are not significant and that having the Agent undertake this function would reduce accountability. Transco stated that it is more efficient for network owners to manage their own credit risk.

### ***Demand estimation***

- 4.16. A number of respondents commented on the issue of demand estimation. One indicated that allocating demand estimation to the agency is a practical way forward. This respondent also expressed the view that consistency in the methodology underpinning demand estimation is essential. Another indicated that demand estimation should be undertaken by the agency as this should ensure that it is undertaken in an independent and objective manner with a standard methodology being applied across all DNs regardless of ownership.
- 4.17. Transco opposed the inclusion of demand estimation in the agency. Transco indicated that allocating demand estimation to the agency would increase costs and lead to inefficiencies. In this context, Transco indicated that demand derivation and demand estimation processes are interlinked and should not be separated. Transco also raised concerns that the agency would incur

considerable costs in consultant expenditure were it to take on demand estimation.

### ***Agency and governance entities***

- 4.18. Most respondents supported the creation of the governance entity on the basis that it would reduce the potential for discrimination and make governance processes more transparent.
- 4.19. A small number of respondents, including Transco, indicated that the creation of the governance entity was not necessary. Transco indicated that concerns expressed about the potential for discrimination are overstated and that the licence obligations that bind Transco with respect to non-discrimination are satisfactory. Transco also suggested that the Uniform Network Code modification rules could also be used as a mechanism to address discrimination concerns by extending the role of the Network Code Modification Panel and removing the existing Transco veto. Transco also indicated that the governance entity may experience difficulties in attracting expert resources.
- 4.20. Another respondent indicated that there is no justification for moving to a costly, bureaucratic model in the gas sector that is similar to the Elexon model in the electricity sector.

### ***Funding, ownership and governance***

- 4.21. Several respondents commented on the funding, ownership and governance of the agency and governance entities.

### ***Regulation and governance***

- 4.22. Several respondents indicated that further work is needed on the governance of the entity. In particular, respondents wanted information on its proposed structure and funding. Some respondents indicated that the governance and agency entity should be licensed and regulated on the basis that it would be a monopoly service provider.
- 4.23. Other respondents commented that the entity does not need to be regulated. Some indicated that if the network owners that own the entity have licence

obligations that make it accountable for its performance, these network owners will be able to exercise control over the entity and have the power to choose an alternative service provider in the event of poor performance.

### **Ownership**

- 4.24. Several respondents commented on the ownership of the entity and whether it should be incorporated. A number of respondents commented that the entity should be jointly owned and funded by the DNs and the NTS. Other respondents indicated that it should be separately owned or incorporated to balance the interests of networks and to ensure transparency. One respondent indicated that there should be full industry involvement at all levels of the entity that is created.

### ***Scope of agency arrangements***

- 4.25. Some respondents indicated that network owners should be able to depart from the agency if they wished, or select services that they preferred to provide themselves as networks. Others however expressed concern that DNs would seek to provide agency services themselves or choose other service providers and depart from the agency arrangements. One stated that there should be an enduring licence requirement on DNs to use agency services. Another respondent indicated that Transco should be required to be a party to the agency otherwise it could exit from the arrangements thereby imposing costs on DN owners.

### ***Network code and charging methodology governance arrangements***

- 4.26. Several respondents emphasised that the network code and charging methodology arrangements should be common across networks so as to avoid the costs associated with fragmentation. One respondent commented that robust governance with strict regulatory checks was necessary.
- 4.27. Others commented that there should be no short form network codes. Some respondents indicated that they did not favour restrictive governance. One indicated that whilst restrictive governance provides some reassurance to

shippers, if Ofgem are strongly in favour of a change proposal it will ultimately be implemented in any event.

- 4.28. One respondent suggested that if fragmented charging methodologies are permitted, DNs may use this as an excuse not to implement innovative charging arrangements that have been developed.

### ***RIA methodology***

- 4.29. A number of respondents commented upon the methodology adopted in the RIA. Some respondents expressed concern at the use of ticks and crosses in the qualitative assessment commenting that they have limited meaning. Others raised concerns that the RIA did not take full account of shipper and supplier costs. Some indicated that all of the agency options required further analysis.
- 4.30. One expressed concerns that the RIA does not include a 'no change' or status quo scenario and instead uses the 'no-agency' scenario as a base case. This respondent indicated that it is inappropriate to use the 'no-agency' case as a base case as it is not a realistic scenario.

### ***DN sales cost/benefit analysis***

- 4.31. One respondent indicated that it was unclear from the RIAs how the Authority had reached its decision regarding the balance of costs and benefits of the DN sales project. Another indicated that a consultation on a full RIA should take place prior to its submission to the Authority in July 2004.

## 5. Ofgem's views

- 5.1. This Chapter sets out Ofgem's conclusions on the allocation of roles and responsibilities taking into account the responses received to the consultation.
- 5.2. Ofgem welcomes the number of responses received to this consultation and the efforts made by respondents in providing comprehensive comments on options outlined in the April 2004 document. Having assessed the responses fully and engaged in further consultation in the workgroups and industry participants including Transco, Ofgem has formed the view that Option C is the most appropriate option to be adopted for the agency and governance arrangements.
- 5.3. In the following sections, we set out the reasons for this decision. We discuss Ofgem's conclusions on the following key issues:
- ◆ creation of the agency function;
  - ◆ establishment of a governance entity;
  - ◆ AT-Link and RGTA systems;
  - ◆ credit and cash collection;
  - ◆ demand estimation;
  - ◆ arrangements for connections and metering;
  - ◆ scope of agency arrangements; and
  - ◆ other issues.

### ***Creation of the agency function***

- 5.4. Ofgem considers that the DN Sales process could not proceed in the absence of an agency function as the potential cost to customers in terms of fragmentation could outweigh the benefits to customers in all possible sale scenarios. The importance Ofgem attaches to the creation of an agency mirrors the views of all respondents to the RIA. In particular, the risk that SPA systems will fragment under diffused network ownership could have a very significant negative impact

on competition and therefore customers. Similarly, the other “core” agency activities of invoicing, recording and calculating transportation volumes, gas balancing credit and cash collection and the other network code and licence obligations should also be included within the remit of the agency.

### ***Establishment of a governance entity***

- 5.5. Like most respondents, Ofgem supports the creation of the governance entity on the basis that it would reduce the potential for discrimination and make governance processes more transparent.
- 5.6. Ofgem notes the view of Transco that the governance entity may experience difficulties in attracting expert resources. Ofgem considers that this risk can be managed by the governance entity and additionally that the modification rules will be developed to ensure that relevant expertise are available at all stages of the modification process. Ofgem will, additionally, have to consider whether any regulatory safeguards might be required to ensure availability of appropriate expertise.
- 5.7. Hence, Ofgem’s view is that the modification process for both the network code and the network charging methodologies should be administered by the governance entity. Ofgem considers that this will increase transparency and visibility as all proposed modifications would be administered in a consistent manner, regardless of which network operator it concerns. This approach should enable industry participants to identify modifications where they consider a risk of fragmentation arises so that this risk can be considered when Ofgem decides whether to accept the modification proposal.
- 5.8. The issues of funding, ownership and governance of the governance entity are currently being considered through the workgroup process. These issues are discussed further in the way forward chapter.

### ***AT-Link and RGTA systems***

- 5.9. As the RIA document indicated, Ofgem had some initial preference towards Option E (as well as option B1), in which the AT-Link systems would be under the remit of the Agency, but provision of the RGTA systems would remain an activity undertaken by NGTs transmission business. The rationale for this view

was the AT – Link systems were predominantly associated with settlement functions and shipper nominations data. Conversely, the RGTA systems are associated with the primary allocation and buy backs of NTS transmission capacity and hence are specific tool utilised by Transco in the day-to-day system operation of the NTS.

- 5.10. The majority of shippers indicated that their preference was for AT-Link and RGTA systems to be under the remit of the agency as this was most likely, in their view, to limit inefficient fragmentation of the systems.
- 5.11. Since the publication of the RIA, Transco has indicated that the split between the AT-Link systems and the RGTA systems is not feasible in the short term because of the Gemini project. As discussed earlier, the Gemini project will replace the current AT-Link and RGTA systems with a single unified system. The implications of this are that:
- ◆ it will require a large part of the Gemini project to be re-specified. Hence, Transco have stated that it would not be possible to deliver the revised split systems in the timetables required by the DN Sales project. Moreover it will delay the implementation of the replacement for AT-Link, which is required urgently given the age of the system; and
  - ◆ the cost of the changes to the programme would be in excess of £10m.
- 5.12. Ofgem's view is that the costs of splitting the Gemini system would be borne by Transco shareholders so are not a factor in its consideration. However, in view of the lengthy timescales and the fact that it might impose risks on the implementation of the replacement to AT-Link systems, Ofgem considers that assigning all of the Gemini systems to the agency is appropriate in these circumstances.
- 5.13. Ofgem does however consider that it is appropriate to keep this issue under review through the work group process and if at a later stage it is appropriate to separate the AT-Link and RGTA systems that commensurate costs should be borne by Transco shareholders.

## ***Credit and cash collection***

- 5.14. Ofgem notes the preference of most respondents for the agency to take on the role of cash collection and credit management.
- 5.15. This preference is based on a view that a requirement to pay each network owner directly will lead shippers to incur additional costs associated with separate payment flows to each network owner. However, further analysis of information from shippers has led Ofgem to conclude that this is not likely to be a material cost, partly because shippers frequently need to put arrangements in place with new counterparties.
- 5.16. Ofgem considers, therefore, that each network operator should be accountable for its own credit arrangements and cash collection. This is because the party who receives the revenue flow will have the strongest incentive to establish efficient and effective credit and cash collection arrangements.

## ***Demand estimation***

- 5.17. Ofgem agrees that, as it is predominantly a settlement activity, demand estimation should be undertaken by the agency as this should ensure that it is undertaken in an independent and objective manner with a standard methodology being applied across all DNs regardless of ownership. This approach is consistent with the views expressed by the majority of respondents that commented on the issue of demand estimation. Furthermore, Ofgem notes that this approach is also consistent to that adopted in the electricity industry.
- 5.18. Transco expressed the view that demand estimation processes should be retained by the NTS, partly because some of the outputs from the process fed into its long term planning processes it undertakes to plan future pipeline investment.
- 5.19. It will be for the Agency to determine the most efficient method of procuring these services.

## ***Arrangements for connections and metering***

5.20. Ofgem considers that the services associated with connections and metering described earlier that could have potentially fallen within the remit of the agency should not do so. The primary driver for this view is that keeping these services within an agency will not promote accountability in the delivery of these services. There additionally may be a marginally negative impact on competition in metering and connections by having these activities within the scope of the agency.

## ***Enduring scope of agency arrangements***

5.21. Some respondents indicated that network owners should be able to depart from the agency if they wished or select services that they preferred to provide themselves as networks. Others however expressed concern that DNs would seek to provide agency services themselves or choose other service providers and depart from the agency arrangements. One stated that there should be an enduring licence requirement on DNs to use agency services. Another respondent indicated that Transco should be required to be a party to the agency otherwise it could exit from the arrangements thereby imposing costs on DN owners.

5.22. A key purpose of the agency is to protect against inappropriate industry fragmentation and the associated increases in costs borne by customers. Consequently, Ofgem does not believe that it is appropriate for individual network operators to have the opportunity to 'opt out' of the agency.

5.23. Ofgem considers that the scope of agency should be appropriately defined going forward, and that changes to the scope of the agency will need to be considered by the whole industry and subject to Ofgem approval.

## ***Other issues***

5.24. A number of other issues were raised by respondents, we briefly address each in turn:

## **Funding, ownership and governance**

- 5.25. Ofgem agrees with a number of respondents that highlighted that there are a several important issues that need to be resolved in relation to funding, ownership and governance. In the next chapter we set out the way forward on these issues and the decision that we are taking on the scope of the agency is conditionally on these issues being satisfactorily resolved.

## **RIA methodology**

- 5.26. Some respondents commented that all of the agency options required further analysis. To assist in its assessment of the various options, Ofgem conducted a survey of shippers and suppliers. The high level results of this survey are set out in the RIA document, however, in order to maintain the confidentiality of respondent's cost information Ofgem was unable to publish more detailed results. Subsequently, Ofgem has received a significant amount of useful additional information through responses.
- 5.27. In response to one respondent's concern that it is inappropriate to use the 'no-agency' case as a base case, Ofgem would note that the RIA sought to consider the full range of potential approaches to the issue of industry fragmentation.

## **DN sales cost/benefit analysis**

- 5.28. In response to comments regarding the broader DN sales cost benefit analysis, Ofgem would re-state that no decision on whether the sale can take place can be made until Transco formally applies to Ofgem and the Secretary of State for consent to allow the sale to go ahead. Once Transco applies, Ofgem will have two months to reach a decision. At this stage Ofgem will issue its final Regulatory Impact Assessment (RIA) including its assessment of the costs and benefits.

## 6. Way forward

- 6.1. Ofgem's decision on the role of the agency is a key step in creating a high level framework to support a divested industry structure. It facilitates further detailed work to develop the regulatory, commercial and operational arrangements that would be implemented if Transco sells one or more of its DNs.
- 6.2. Ofgem will discuss its decision on the agency and governance RIA at the Development and Implementation Steering Group meeting to be held at Ofgem's offices on Tuesday 8 June.
- 6.3. There are a number of other important issues associated with the agency and governance arrangements that were not intended to be resolved by this RIA process. Further work will be required to define the ownership, funding and governance arrangements associated with the creation of the agency and governance entities. As Ofgem does not intend to reopen Transco's present price control, to the extent that these issues relate to the price control an overall package needs to be elaborated through which Transco and the Agency is committed to change up to and beyond the next price control review. Ofgem considers that the development of such arrangements should consider a specific objective to provide shippers and suppliers with a greater opportunity to participate, take responsibility and have control over the delivery of agent services.
- 6.4. Ofgem and the industry will also need to consider the arrangements that will apply from the commencement of the next price control period for the DN and NTS businesses. Ofgem considers that the development of arrangements should consider a specific objective to provide shippers and suppliers with a greater opportunity to participate, take responsibility and have control over the delivery of agent services. At the same time, Ofgem will remain vigilant to ensure that the cost control incentives that exist under the present price control arrangements is an enduring feature.
- 6.5. It will be necessary to resolve these issues prior to the sale of one or more DNs. In addition, the following section sets out Ofgem's views with respect to the way forward in relation to supply point administration.

## ***SPA arrangements***

- 6.6. Domestic suppliers have committed to seek improvements to the customer transfer process in gas and electricity. Fundamental to this programme are arrangements that allow suppliers to have more control over the delivery and direction of governance arrangements that support the change of supplier service (SPA) in gas.
- 6.7. To ensure that governance arrangements give sufficient weight to customer interests, a number of changes to the arrangements for determining the services supported by the agency will be required. To enable these changes, a number of reforms will be required:
- ◆ **Agency funding.** The funding arrangements for SPA services are currently embedded in the price control, which means revenue cannot be adjusted to reflect shipper/supplier willingness to pay for a more flexible service. This incentive problem must be resolved in the next price control. To facilitate this, Transco should present the costs of the agency on the basis of activity-based costing (ABC) analysis.
  - ◆ **Ownership of the Agency for SPA services.** If the agency is to be responsive to the requirements of its users it may be appropriate for shippers/suppliers to have more influence over the direction of changes proposed by the agency (possibly by allowing suppliers to become shareholders in the agency).
  - ◆ **Governance of Agency SPA services.** In order to ensure that there is effective governance, we require Transco to investigate how the rules governing the retail aspects of the network code could be migrated to the SPAA (including assurance that the agency processes that support SPA are suitably defined).

## **Program of work on SPA**

- 6.8. To deliver the required changes, a programme of work is required that:
- ◆ gives consideration to shippers/suppliers having voting rights on the agency board on SPA related issues;

- ◆ creates transparent linkage between service and cost, initially through activity-based shadow-charging; and
- ◆ creates comprehensive governance of all services to shipper/suppliers, either in network codes or in the SPAA.

6.9. This work will be progressed through the Agency Work Group. If insufficient progress is made on these issues Ofgem will have to consider whether it is appropriate to reconsider the agency arrangements and consult on alternative proposals. Following full consultation on these proposals, Ofgem hopes that these reforms can be introduced at the latest at the start of the next price control period.

### ***Broader DN sales work program***

6.10. With respect to the broader DN sales work program, Ofgem intends to release two further RIAs on exit and interruption and the offtake arrangements in early June. Ofgem intends to make all major policy decisions by the end of July 2004. Subject to Authority approval, it is envisaged that thereafter the project will enter a more detailed implementation phase.

# Appendix 1

## Summary of evaluation of cost and benefits of options

		Option A	Option B1	Option B2	Option C	Option D	Option E	Option F
	No Agent	Transco's initial proposal	Introducing governance entity	B1 plus credit arrangements with Agent	AT-link plus RGTA	Splitting systems with responsibilities	RGTA with NTS & AT link with Agent	Broadest Agent
<b>Accountability</b>								
◆ Credit and cash collection	✓✓	✓✓	✓✓	xx	✓✓	✓✓	✓✓	xx
◆ Settlement and ops systems	✓✓✓✓	✓✓	✓✓	✓✓	x	✓✓✓	✓	x
◆ Connections	✓	✓	✓	✓	✓	✓	✓	x
<b>Cost mitigation</b>								
◆ Credit and cash collection	x	x	x	✓	x	x	x	✓
◆ Settlement and ops systems	xxx	x	x	x	✓✓	xxx	✓	✓✓
◆ SPA systems	xxxx	✓✓✓✓	✓✓✓✓	✓✓✓✓	✓✓✓✓	✓✓✓✓	✓✓✓✓	✓✓✓✓
◆ DCM governance arrangements	x	x	✓	✓	✓	✓	✓	✓
<b>Non – discrimination in modifications process</b>	x	x	✓	✓	✓	✓	✓	✓
<b>Competition</b>								
◆ Wholesale & retail	xxx	✓	✓	✓	✓	✓	✓	✓
◆ Metering	✓	✓	✓	✓	✓	✓	✓	x
◆ Connections	✓	✓	✓	✓	✓	✓	✓	x
<b>Quality of service</b>	✓✓✓✓	✓✓	✓✓	✓✓	✓✓	✓✓	✓✓	✓