



# Gas Distribution Network Sales NTS-DN Business Separation : Conclusions

## Key issues

- If it occurs, the sale of one or more DNs would give rise to new commercial incentives
- Transco NTS could potentially confer an undue commercial advantage on RDNs relative to IDNs, for instance:
  - When contracting for and calling interruption; and
  - When scheduling maintenance.
- An unequal playing field could limit the benefits of comparative competition
- Business separation is one of a number of measures that seek to reduce the risk of undue discrimination

# Options for business separation

	Option 1	Option 2	Option 3	Decision
<b>Non discrimination conditions</b>	✓	✓	✓	✓
<b>Structural separation</b>				
Information separation	Partial	✓	✓	Targeted
Operational separation	Partial	✓	✓	Targeted
Physical separation	✗	✓	✓	Targeted
<b>Legal separation</b>	✗	✗	✓	✓
Described in Offtake RIA				

# Costs and benefits of separation

## Costs of separation

### **Potential to impose significant costs on Transco**

- extent these costs will be passed through is limited

### **Risk that rules will become detailed & complex**

- costly to administer
- difficult to monitor compliance
- difficult to demonstrate breach

## Benefits of separation

### **Reduces risk of undue discrimination**

- limits chance for info sharing
- removes individuals from situations where disc. may occur
- limits opportunities for NTS-DN staff to develop close relationships

### **Establishes a transparent interface between businesses**

- separate boards created
- contracts formalised

# Responses to Offtake RIA

- 9 out of 12 respondents favoured full legal & structural separation
- 1 supported Option 1, and another supported Option 2

## Transco's views

- Prefers an amended version of Option 1 (incorporating further structural separation)
- Believe opportunities for undue discrimination are limited
- Option 3 is not 'fit for purpose' as it will not protect against undue discrimination
- Targeted structural separation may deliver an appropriate degree of separation to mitigate risk of undue discrimination, without full cost

# NTS-DN Business separation: Conclusions

- *Minded to adopt legal separation plus targeted structural separation*
- Proportionate mechanism for establishing a level playing field
- Aligns with requirements that apply to other energy businesses
- 'Minded-to' because the implementation issues associated with legal separation are still being resolved