



RDN-RDN Business Separation Ofgem preliminary position

Introduction

- Offtake Arrangements RIA considered NTS-DN separation
- Related but separate issue is RDN-RDN separation
 - NTS-DN separation is one measure that is designed to prevent undue discrimination
 - Limited opportunities for DNs to confer undue commercial advantage on each other
- Necessary to consider whether separate legal entities should be established for each RDN business

Costs & benefits of RDN-RDN legal separation

Costs of separation

Potential for debt restructuring and property transfer costs

Potential for operating inefficiencies associated with safety case requirements

Potential for transparency benefits to be undermined if an operating company arrangement is adopted

Benefits of separation

Arguably creates more transparency/ease of comparability when setting the price control

Consistent with electricity industry

Helps to ensure that all DNs are treated in the same manner by Ofgem

Simplifies RDN licences as area - specific conditions are not required

Industry views

- Predominant DISG view appears to be that RDN-RDN separation is not a key issue
- Transco opposed to RDN-RDN separation
 - contends that it will create significant additional debt restructuring, property transfer & operational costs

Ofgem's preliminary view

- *RDN-RDN separation should not be required*
- Possible to draft RDN licence so that regulatory reporting & accounting conditions apply to each individual RDN in the same way that they apply to IDNs
- Ofgem will seek to create level playing field between all DNs in a comparative regulation environment

Way forward

- Preliminary position paper to be circulated this week
- Responses may be submitted in the context of the consultation on grant of multiple licences to Transco
 - Responses are due 24 September 2004