

Development and Implementation Steering Group Minutes

Meeting 19

14 September, 10:00 am – 2:00 pm

Ofgem's office, 9 Millbank

Attendees

Julian Bagwell	Macquarie	Paul Jones	AGT and IPL
Rekha Patel	Conoco Phillips	Neil Shaw	AGT
Charles Ruffell	RWE npower	Stuart Hunter	British Gas Connections
Beverley Grubb	SSE	Graham Duffield	IPL
John Costa	EDF Energy	Peter Bingham	NGT
Martin Kinoulty	United Utilities	Mike Ashworth	NGT
Simon Goldring	British Gas Trading	Sue Higgins	NGT
Nick Wye	WWA	Farook Khan	Ofgem
Richard Street	Statoil UK	David Ashbourne	Ofgem
Peter Bolitho	E.ON UK	Sonia Brown	Ofgem (chair)
Phil Scott	HSE	Jess Hunt	Ofgem
		Catherine Saponar	Ofgem

1. Review of items from previous DISG meeting (held 7 September 2004)

a) Minutes

Neil Shaw noted that the title of section 4 should be corrected to "Transco presentation on Gas Safety Cases and First Line Emergency Responses". He also raised a lack of clarity with regards to the statement that "IDNs will need to coordinate only if their safety case affects other GTs". Sonia noted the comment and that Transco should clarify.

Sue Higgins suggested the sentence noted by Peter Massey that "...the sale would still go through, with severe commercial penalties for the IDN in question" should be amended to "...the sale would still go through, however there are strong commercial incentives for the IDN to complete its safety case on time". Sonia accepted this change.

Sue Higgins suggested a change for the Action in section 4, to amend the action to "Transco to explore the possibility of (1) extending existing IGT contracts for one year (to 2006) and (2) discussions between IGTs and potential buyers (NB not bilateral meetings)." Sonia said that there was no commitment for Transco or potential buyers to enter into discussions with IGTs arising through the DISG as the contracts were a commercial, not a regulatory issue.

Sue Higgins requested that Ofgem amend the following sentence "Peter noted that the proposed approach in case of a *large supply* emergency that required support from outside the DN". Sonia accepted to amend "large supply emergency" but stated that "support needed from outside the network in question" only related to the New Zealand agreement and that the minutes should be made clear in this regard.

Action: Transco to explore the possibility of (1) extending existing IGT contracts for one year (to 2006) and (2) discussions between IGTs and potential buyers (NB not bilateral meetings). Due DISG 21.

b) Actions

The actions arising at the previous meeting had been discharged as follows:

- *DISG 19 to discuss each licence condition.* This is represented by Agenda items 4 and 5.
- *Potential buyers/Transco to explore possibility of discussions with IGTs.* Not relevant to this meeting.
- *Document on scope of agency to be sent to DISG members through the circulation list.* Sonia Brown noted that this has been done. Charles Ruffell noted that this document had not been updated to reflect that Authority's decision in relation to the agency arrangements. Peter Bolitho asked question how Option C would be delivered. Peter Bingham stated that NGT will update the schedule and deliver an overview that highlights all changes in four weeks.
- *Ofgem to keep a rolling update of meetings agenda to ensure that all attendees are aware of the issues to be discussed.* Sonia stated that this has been circulated on Friday.

Action: Transco to update the xoserve service line document to reflect Option C and deliver an overview that highlights all changes to the service lines at DISG 23. In addition, Transco to explain how it intends to implement Option C.

2. Discussion of on proposal to have a moratorium on licence/UNC modification.

Sonia Brown explained that Ofgem had received a suggestion from a market participant to propose a moratorium on licence/UNC modifications in order to allow for a smooth implementation of DN Sales. Sonia invited DISG members to express their views on this proposal. Sonia explained that while licence modifications are in Ofgem's control, code modifications are not. Nick Wye noted that in theory this might be a useful proposal, but questioned practicability in reality. Peter Bolitho said that the current modification process needs to be business as usual and that Transco needs to continue to commit the relevant resources. Peter Bingham confirmed that Transco is not diverting resources from its usual Network Code processes. Richard Street said that there was no official way to stop modifications and that at best this would rely on industry participants voluntarily refraining from raising modifications.

Sonia Brown agreed the Network Code is a contractual arrangement and that any moratorium would be voluntary. She said that the idea had been presented by a shipper/supplier in order to achieve a period of stability. Jess Hunt added that the proposal would address concerns that modifications which are made to Transco's Network Code just prior to the introduction of the UNC could become lost in transition.

Mike Ashworth suggested that modifications raised in relation to the Network Code changes could be implemented in the UNC.

Sonia Brown concluded that a proposal for a moratorium did not have widespread support and that Ofgem would inform the suggesting industry participant. She noted that

the absence of a moratorium underlined the need for industry participants to understand the timescale with regards to the transition from the current Network Code to the UNC in detail.

Martin Kinoulty noted that some industry participants may expect a roadmap for the entire process, including all aspects related to issues, such as the agency, safety cases etc. Peter Bingham cautioned that NGT might not have the required detail available in two weeks and enquired if NGT report back to the next DISG. Sonia Brown pointed out that NGT's commercial timetable is getting closer and that workgroup participants are expressing some frustration, as they will need to understand the requirements from their business and therefore need a roadmap.

Action: Transco prepare a road map setting out a detailed forward work plan through to implementation, including the processes relating to modifying the UNC and licences, obtaining the relevant Authority, DTI and HSE consents, the implementation of the Authority's decision on agency and relevant systems changes. The roadmap should show how issues are interlinked and how overarching changes will be carried out in practice. Action due at DISG 21.

Simon Goldring asked how UNC related issues, such as credit, would be taken forward. Sonia Brown explained that the separate UNC workstream is useful, but that a feedback loop needs to be established that allows for relevant issues to be brought to DISG. She suggested that this should take the form of NGT reporting back to each DISG on the UNC workstream.

Action: Transco to report to each DISG on the UNC workstream, and to refer to the DISG any relevant issues arising at the UNC workstream.

3. Governance of the agency.

Sonia Brown explained the background to this issue, which was that Ofgem had received feedback that some shippers prefer Ofgem's approach to the governance of the agency over the approach that is being adopted by NGT. Jess Hunt noted that the main difference between the two approaches lies in the more limited role for independent directors under NGT's approach. Sonia Brown noted that one of the main advantages of having independent directors with voting rights was that GTs could select customer focussed directors. She outlined that NGT had stated that their revised approach differed on this point and that Ofgem had invited views on this.

Peter Bolitho explained his surprise following a meeting with xoserve during which he had been explained that non-executive directors would not have any voting rights. He stated EON UK's view that the voting rights for non-executive directors were the main beneficial proposal within Ofgem's approach and that EON UK therefore supports Ofgem's proposal.

Sonia Brown enquired whether any provisions relating to the agency had been signed with purchasers. Mike Ashworth said that the agreements have been amended with regards to changes on the special majority. Sue Higgins stated NGT's view that only those with exposure to financial issues should vote.

Sonia Brown concluded that EON UK and another major player have expressed concern in relation to this issue. She said that NGT will need to consider whether its proposals are sufficient to meet the concerns of its customers.

Action: NGT to explain the additional safeguards (over and above the status quo) that will protect customer's interests under the agency governance arrangements, in particular in relation to the IT systems change process. Action due DISG 22.

Action: Transco to provide update on how agency board voting rights would be allocated under sale scenario. Action due DISG 22.

Simon Goldring enquired with regards to updates on credit issues. Sonia Brown pointed out the Ofgem's credit policy team will contribute directly to the UNC workstream (as an ongoing action).

4. Discussion of Standard Licence Conditions.

Sonia Brown explained that although Ofgem wished to be as helpful as possible, it was important to note that there can be no expectation on the part of any interested party regarding the Authority's decision on whether to consent to a sale, or the regulatory framework that might be granted if such consent was granted. She said that the disclaimers set out in the informal consultation document applied equally to DISG discussions.

Sonia briefly described the proposed future licence structure as set out in the informal consultation document, and set out the following objectives for the group's discussion:

- ◆ to review all existing Transco Standard and Special licence conditions;
- ◆ to consider the allocation of each licence condition;
- ◆ to identify any further issues that need to be considered; and
- ◆ to develop a list of licence conditions that DISG would like to keep under review.

The group reviewed the standard licence conditions, and agreed the following action:

Action: DISG to consider the following standard and amended standard conditions: SC/ASC 1, 4, 4A, 4D, 4E, 6, 8, 9, 16, 20, 22, 24, 25, 30, 39, 40, SpC 19, 26, 27, 28-30, 34.

The remaining licence conditions will not be further revisited within the DISG forum except in case of major changes. The remainder of this section provides a summary of the discussion.

ASC 1 — Definitions and interpretation

Peter Bolitho suggested that it would be advantageous if all definitions were located in one place in order to make the licence user-friendly. Sonia Brown said that, so far as possible under the circumstances, Ofgem was trying to make the licence easy to understand. The group agreed that it would not be necessary to review ASC 1 unless changes to the definitions were proposed.

SC 2 — Application of Section C (Transportation Services Obligation)

Sonia noted that Ofgem proposes to retain SC 2 as a standard condition. She noted that Ofgem intends to introduce a new licence condition that would facilitate the restructuring of Transco's GT licence.

SC3 — Payments by the Licensee to the Authority

Sonia said that Ofgem proposed that SC 3 should remain as a Standard Condition applying to all licences. The group agreed with this approach and agreed that it would not be necessary to review this licence condition further.

ASC4 — Charging Gas Shippers – General

The group discussed the treatment of LNG under ASC 4. Sue Higgins said that the condition related to circumstances where the NTS feeds low pressure gas from its LNG storage units into the DNs. She explained that LNG create low pressure gas as a by-product which can't be fed into the NTS without major investment, and as environmental laws prevent Transco from flaming the gas, it is most cost efficient for the by-product to be fed into the DN. Sue said that in Transco's view, these flows of gas were too insignificant to be subject to a commercial arrangement. Several members of the group disagreed, suggesting that all flows of gas from the NTS onto the DN should be the subject of a commercial arrangement. In particular, Beverley Grubb expressed concern that the flows of gas from LNG storage units onto DNs could breach GSMR gas quality standards. Simon Goldring noted that similar issues could arise in relation to the Isle of Grain.

It was agreed that LNG would be discussed further at the following DISG.

Action: Transco to give presentation on LNG issues at DISG 20.

Sonia Brown noted that issues relating to LNG arise in a number of conditions throughout the licence. The group agreed to consider LNG as a single issue, rather than in the context of each individual licence condition. Julian Bagwell expressed support for Ofgem's proposal that licence conditions relating to LNG should not apply to DNs.

Sonia Brown told the group that Ofgem was also considering the introduction of a 'reasonable endeavours' obligation on DN and NTS to limit changes to their charging methodology. Julian Bagwell asked how such a requirement would interact with other licence obligations, such as Amended Standard Condition 48. Sonia Brown explained that the reasonable endeavours requirement was intended to be flexible – licensees would be obliged to comply with the requirement unless they had good reason to do otherwise. She suggested that complying with ASC 48 would constitute a good reason.

The group agreed to keep ASC 4 under review.

ASC 4A — Obligations as Regards Charging Methodology

Richard Street and Simon Goldring asked why Ofgem proposed to make the condition a Special Standard condition rather than a Standard Condition. Sonia said that if the condition was a standard condition then all GTs, including IGTs, would be affected. She said that Ofgem does not intend to make changes to the licences of IGTs as a part of DN sales.

Peter Bolitho suggested that references to the auction arrangements should be omitted from DN licences as it could arguably prejudice future changes to DN licences. Sonia Brown said that this was not the case as the condition was drafted such that it would only apply if an auction regime was established elsewhere in the licence. Farook Khan suggested that omitting the references to auctions from the DN licences would be more prejudicial than retaining it.

In relation to the proposed new condition requiring licensees to keep their charging methodologies under review, Sonia explained that the proposal new condition sought to address concerns expressed in the DISG that DNs would fail to adopt positive amendments to their charging methodologies in a consistent manner.

The group agreed to keep ASC 4A under review.

SC 4B — Connection Charges etc.

The group discussed the obligation under SC 4B to maintain a register of pipes, as referred to in section 8 of the condition. Sue Higgins clarified that this requirement applies only to a limited category of pipes, namely, self-lay connection.

Stuart Hunter asked whether SC 4B would apply to DNs in relation to a specific authorised area. Sonia Brown confirmed that Ofgem envisaged that the condition would apply in relation to a specific area. She said that Ofgem was considering what authorised areas should be granted to DNs in the context of the consultation on the grant of eight additional new GT licences to Transco. She suggested that one option being considered was the electricity model, where the licensee's authorised area is the whole of Great Britain, however a designated area is set out in the licence. Sonia noted that responses in relation to this consultation were due on 24 September.

Stuart Hunter expressed concern regarding competition in connections given that DNs would have a dominant position. He suggested that a new licence condition may be appropriate. Sonia Brown noted that potential new licence conditions relating to the relationships between GTs would be discussed at the subsequent DISG meeting.

The group agreed that it would not be necessary to review this licence condition further unless changes to the condition were proposed.

SC 4C — Charging of Gas Shippers - supplemental connection charges

Sonia explained that this condition has expired and consequently Ofgem proposed to switch it off. Some group members asked why the condition couldn't be deleted. Sonia explained that deleting the condition would give rise to technical legal difficulties as it would involve carrying out a statutory CLM.

The group agreed that it would not be necessary to review this licence condition further.

SC 4D — Conduct of Transportation Business

Sonia explained the content of the current licence condition. She explained that the definition of transportation business in Transco's licence includes LNG storage arrangements and the provision of metering services and meter reading services. There was some discussion surrounding the treatment of LNG, metering and meter reading services. Transco outlined its position that the NTS would not need provisions relating to metering or meter reading services.

Peter Bolitho asked what the arrangements would be in place for metering of customers directly connected to the NTS. Sonia Brown said that Ofgem is inviting views on these issues in the context of its informal licence consultation document. Richard Street raised an issue as to whether the suppliers' obligation to ensure all sites are adequately metered would remain. Sonia Brown said that Ofgem would consider this issue further.

Action: Ofgem to consider supplier's obligations with respect to metering at NTS supply points.

Action: Ofgem to consider the application of obligations relating to metering and meter reading services and to revert to the DISG.

Jess Hunt noted that the non-discrimination provisions of SC 4D could potentially be relevant in the context of the business separation requirements to be imposed as a part of DN sales. She noted, however, that there were also other licence conditions that would be affected by business separation and that the detail of how the requirements would be implemented was yet to be determined.

The group agreed to keep ASC 4D under review.

ASC 4E — Requirement to enter into Transportation Arrangements in Conformity with Network Code

Sonia explained the requirements set out under this condition, and noted that this licence condition also contains reference to LNG. Sonia said that given the discussions that had occurred at the DISG to date, it was likely that DISG members would want to track the progress of this condition. DISG members agreed with this assessment.

Peter Bolitho asked whether an obligation should be put in place on NTS and DN GTs to use common settlement arrangements. Sonia stated that Ofgem had considered this issue in relation to Amended Standard Condition 9 and were seeking respondent's views.

The group discussed the interactions with the governance of the offtake arrangements. It was noted that this issue would need to be resolved in order for drafting of changes to this licence condition to be undertaken.

The group agreed to keep ASC 4E under review.

SC 5 — System Development Obligations

Sonia provided a description of the licence condition and said that Ofgem had not been able to identify any DN sales related issues with respect to this condition. Sonia invited the group's views, however the group could not identify any issues and agreed that this condition did not need to be reviewed further by DISG.

SC 5A — Information to be provided to the Designated Registrar of Pipes

Sonia described the licence condition. The group agreed with Ofgem's assessment that there were no issues associated with the drafting of the licence condition but rather consideration needed to be given as to whether the licence condition would become operative. The group agreed that DISG did not need to review this licence condition further. Julian Bagwell indicated that Macquarie would prefer for this condition not to be operative for day one.

ASC 6 — Emergency Services and Enquiry Services Obligations

Sonia gave an overview of the licence condition and explained that this was a key emergency services licence condition. Sonia stated that the 0800 number would remain with Transco plc as this was a statutory requirement. Ofgem's informal licence

consultation document additionally invites views on whether the condition should be broadened.

Stuart Hunter said that IGTs would like to see the condition extended to include other IGT services such as the repair service. Martin Kinoulty stated that there was a clear distinction between repair and emergency services.

Richard Street asked whether Transco's practice of advertising the 0800 number on its assets would be continued by DNs. Mike Ashworth stated that the statutory obligation would continue to remain with Transco plc. Sonia Brown asked what the HSE's view on this matter would be. Phil Scott indicated that the safety cases were not sufficiently detailed to pick up on this issue. Richard Street asked whether the information would be displayed on the vans of the new owners. Mike Ashworth indicated that this would be a matter for the new owners. Beverly Grubb said that she thought it unlikely that IDNs would object to publicising the 0800 number. She considered that it would not be in the IDNs' interest to do anything that might reduce awareness as this could potentially put their networks at risk. Graham Duffield noted that IGTs are required to put Transco's 0800 number on certain assets under GSMR.

Simon Goldring considered that the condition should be split between the different emergency services. Sonia Brown stated that she understood his perspective, and that Ofgem would welcome respondent's views in this issue.

The group agreed to keep ASC 6 under review.

SC 7 — Provision of Information Relating to Gas Illegally Taken

Sonia set out the main provisions of this licence condition and explained that Ofgem had identified no issues. The group agreed with Ofgem's assessment and agreed that they did not need to review this condition further.

ASC 8 — Provision and Return of Meters

Sonia explained the provisions of the licence condition, noting that similar issues arose with respect to this licence condition as in relation to ASC 4D.

Jess Hunt noted that under Ofgem's proposed changes to this licence condition, DNs would be under an obligation to 'procure' rather than 'provide' a last resort supply service. This approach would permit DNs to enter into contractual arrangements in order to carry out their meter provider of last resort obligations.

The group agreed to consider all metering issues as a single item at a future DISG meeting.

Action: DISG to consider metering issues.

ASC 9 — Network Code

Sonia started the discussion by noting that the issues contained within ASC 9 have already been the subject of considerable debate at DISG meetings. She outlined that Ofgem considered it would be necessary to fundamentally revise this condition and introduce the new condition as a Standard Special Condition.

Sonia explained that there were several important issues associated with this licence condition; including whether there should be a new relevant objective, issues surrounding the authority's ability to consent to modify the UNC, and the governance of

NTS offtakes. Peter Bolitho considered that it was important to also oblige NTS and DN GTs to enter into the agency arrangements. Sonia explained that Ofgem's intention was that both the scope of the agency and the requirement to enter into agency arrangements should be obligations on NTS and DN GTs. Sonia additionally set out that consideration was necessary as to whether this was best achieved through the licence or through the UNC itself.

Simon Goldring raised an issue as to whether consideration needed to be given to the impact on IGTs. Stuart Hunter said that he understood Ofgem's proposals only related to NTS and DN GTs and not to IGTs. Sonia Brown confirmed that this was the case.

Julian Bagwell stated that it was important for the Authority to retain the consent to modify provisions, at least until the sales process was complete. He added that the consent to modify provisions would probably be useful in the period following the implementation of the new arrangements. Mike Ashworth said that if the modification rules were embedded within the UNC, then it would not be necessary to set these arrangements out in the licence condition. Sonia Brown confirmed that consideration would need to be given to where obligations should reside.

Sonia Brown suggested that the DISG would want to be involved in the development of this licence condition. DISG members agreed.

SC 13 — Change Coordination for the Utilities Act 2000

Sonia explained that this condition had expired and it was therefore Ofgem's proposal to switch the condition off. The group agreed with Ofgem's assessment and agreed that it was not necessary to consider this condition further at the DISG.

ASC 14 — Supply Point Administration Agreement

Sonia explained that this was a new licence condition to support the Supply Point Administration Agreement. She said that Ofgem's initial view is that this licence condition should be retained to as a Standard Special Condition. The group agreed with Ofgem's assessment and agreed that it was not necessary to consider this condition further at the DISG.

SC 16 — Pipe-Line System Security Standards

Sonia noted that the workgroups had considered the issue of the 1 in 20 obligation already. Ofgem's proposal is that the 1 in 20 obligation should continue to apply to both NTS and DN GTs as a Standard Condition (therefore applying to all GTs).

Simon Goldring asked whether the calculation of the 1 in 20 requirement would be made on a consistent basis. Sonia replied that there was no requirement for a common methodology under Option 2 of the offtake arrangements. Peter Bingham agreed and stated that it would be for the individual licensee to determine.

Peter Bolitho raised an issue as to whether the 1 in 20 obligation applies in relation to NTS direct connects. Sonia Brown replied that it was her understanding that Transco currently complies with its 1 in 20 obligation in relation to NDM loads only. Peter Bingham confirmed that this was the case. *(At a subsequent meeting, Transco confirmed that Transco complies with its 1 in 20 obligation in relation to firm loads.)* Peter Bolitho said that it was important that this condition was considered as part of the detailed development of the offtake arrangements. The group agreed with Peter's

recommendation, and therefore it was decided that the DISG would keep SC 16 under review.

SC 17 — Provision of Services for Persons who are of Pensionable Age or Disabled or Chronically Sick: Arrangements in Respect of Meters

Sonia described the provisions of SC 17. She noted that it was a part of a group of 'social' licence conditions, and the Ofgem proposed the same treatment in each case. She said that Ofgem considered that, even though these conditions relate to domestic customers, it was appropriate for the conditions to remain in place for the NTS as the Gas Act does not distinguish between domestic and non-domestic premises.

The group agreed that there was no DN sales related issues associated with these licence conditions, and therefore it was not necessary to consider them further.

SC 18 — Provision of Services for Persons who are Blind or Deaf

As per SC 17.

SC 19 — Arrangements in Respect of Powers of Entry

As per SC 17.

SC 19A — Authorisation of Officers

As per SC 17.

SC 19B — Exercise of Powers of Entry

As per SC 17.

ASC 20 — Standards of Performance

Sonia explained that standards of performance were due to be discussed at the DISG meeting on 28 September. She therefore suggested that this licence condition was considered as part of that discussion. DISG members agreed.

SC 21 — Complaint Handling Procedure

As per SC 17.

SC 22 — Preparation, Review of and Compliance with Statements and Codes

As per SC 17. Julian Bagwell noted that new DNs would need some time to consider the statements and codes required under this condition. Sonia Brown stated that it was important that NGT considered these issues as part of its timetable development. Peter Bingham agreed.

Action: Transco to consider how to build SC 22 requirements into its proposed timetable.

SC 23 — Record of and Report on Performance

As per SC 17.

ASC 24 — Provision of Information to the Authority

Sonia Brown explained that this was a key regulatory oversight condition and that Ofgem would seek to ensure that its information gathering powers were at least as effective as they are at present. She suggested that it would not be necessary for DISG members to examine these issues further.

Simon Goldring commented that this was a key condition for ensuring that customers receive the benefits from comparative regulation, and consequently this condition should be considered further by the DISG. Jess Hunt noted that one of the primary conditions for obtaining information for the purposes of comparative regulation was ASC 30, the regulatory accounts condition. Sonia Brown added that ASC 24 related more to the Authority's ad hoc information gathering powers.

The group agreed with Ofgem's assessment and therefore did not consider that this condition should be reviewed further.

ASC 25 — Long Term Development Statement

Sonia explained that this condition put in place the requirement for the 10 year statement on the high pressure system. She explained that there was an issue associated with whether both NTS and DN GTs would be required to produce statements in a post sales environment.

Peter Bolitho stated that it depends on how much faith the industry will have in the signals from the offtake arrangements. Simon Goldring asked what Ofgem expects to see from the 10 year statement process. Sonia responded that Ofgem generally favours the maximum level of transparency in relation to monopoly businesses, but it is interested to understand industry's perspective on this. Simon Goldring stated that the industry wanted one system developed on an integrated basis to meet all demands.

Julian Bagwell stated that he understood Ofgem's concerns regarding sharing information between Transco NTS and RDNs, but he considered that some co-ordination would be appropriate.

DISG members agreed to keep this licence condition under review, including in particular the issue of the content of the 10 year statements and mechanisms for co-ordinating the planning process.

SC 27 — Adjustment of Amounts by Reference to the Retail Price Index

The group agreed that it was not necessary to consider this condition for the purposes of DN sales.

SC 28 — Termination of Shipping Arrangements

Sonia gave a brief description of this condition. The group agreed that it was not necessary to consider this condition for the purposes of DN sales.

ASC 29 — Disposal of Assets

Sonia noted that this was the condition that created a requirement for the Authority to consent to DN sales, and said that the Authority would wish to retain this power going forward. She also noted that the Secretary of State has a role within this licence condition. Sonia noted that the condition referenced the LNG storage business and proposed the same treatment as the other references to LNG.

Sonia said that Ofgem proposed that this condition should apply to NTS and DN GTs as that Standard Special Condition. The group agreed that it was not necessary to review this condition again.

ASC 30 — Regulatory Accounts

Sonia said that it would be important to ensure that this condition was amended to reflect Ofgem's position with respect to DN-DN separation. Ofgem intends to utilise this condition in relation to each network rather than for each group of DNs under common ownership.

The group agreed with Ofgem's assessment that this was a key licence condition for ensuring that customers benefit from DN sales, and therefore it was decided that this condition should be kept under review.

SC 30A — Change of Financial Year

The group agreed that it was not necessary to consider this condition for the purposes of DN sales.

ASC 31 — Supply Point Information Service

Sonia described the condition. The group discussed whether there would be scope for deterioration in the quality of data provided under this condition. Jess Hunt noted that the supply point information service was the subject of a modification proposal that was recently raised by British Gas Trading.

The group agreed that it was not necessary to review this condition again.

ASC 32 — Interpretation of Section C

Sonia reminded the group that Section C of the licence is capable of being switched on and off by the Authority. ASC 32 sets out the interpretation of Section C. Sonia explained that the condition differed from the standard with respect to the definition of 'permitted purpose'. In particular, LNG storage business, the metering business and meter reading are included in the definition of 'permitted purpose' under Transco's licence.

Sonia suggested that the group did not need to consider this provision in detail. The group agreed that it was not necessary to consider this condition further unless changes to the definitions were proposed.

SC 33 — Designated Registrar of Pipes

Sonia explained that the key issue with respect to this condition was whether the condition should become operative. Ofgem had identified no other issues associated with the condition. Stuart Hunter asked whether it was only Transco that could be the Designated Registrar of pipes. Sue Higgins confirmed that this condition could be imposed on could be any licensee and therefore on NTS or DN GTs (or any other GT).

The group agreed that DISG did not consider that it was necessary to consider the licence condition further, but rather the issue as to whether there should be a Designated Registrar of Pipes.

Action: Group to consider whether there should be a Designated Registrar of Pipes.

SC 38 — Availability of Data Formats

Sonia described the licence condition. Peter Bolitho suggested that an equivalent licence condition may be required associated with the offtake arrangements. Sonia Brown agreed that this would need to be considered. Nevertheless, the group agreed that it was not necessary to review this condition again.

Action: Group to consider the availability of data formats in relation to the offtake arrangements.

ASC 39 — Restriction on Use of Certain Information and Independence of Transportation Business

Jess Hunt said that ASC 39 would need to be amended in order to implement that Authority's decision in relation to the level of separation required between Transco's NTS and DN business. She noted that the Authority is minded to require Transco to implement legal separation, and to put in place an audited statement that sets out how Transco will comply with its obligation to not unduly discriminate between RDN and IDN businesses. She added that further amendments were likely to be required to ensure no undue discrimination between NTS and DN GTs and affiliated businesses in downstream markets, such as CCGT and shipping businesses. She noted that such amendments could be modelled on the arrangements that apply in electricity.

Neil Shaw asked whether the provisions would apply where a DN purchaser also holds an IGT licence. He went on to explain that this was not a theoretical concern as one purchaser was in this position. Sue Higgins suggested that the relevance of s105 of the Utilities Act should be considered in relation to this issue. Farook Khan suggested that Sue's analysis on s105 was not consistent with the position adopted by Ofgem. It was noted that the DN may prefer to merge its IGT and DN businesses.

Sonia agreed to consider the matter further.

Action: Ofgem to consider whether business separation should be required between DN-GTs and affiliated IGTs.

Jess Hunt noted that ASC 39 was already scheduled for consideration at a future DISG meeting.

SC 40 — Appointment of Compliance Officer

Jess Hunt explained that this condition supports ASC 39, and it may be necessary to make some consequential amendments to SC 40 to reflect changes to ASC 39. The

group agreed to consider this condition in the context of discussion on business separation.

SC 41 — Prohibition of Cross Subsidies

Sonia Brown described the condition. Jess Hunt said that it would be important to ensure that the prohibition on cross subsidies applies between individual DNs, such as between Transco's RDNs.

The group agreed that it was not necessary to review this condition again.

ASC 45 — Undertaking from Ultimate Controller

Sonia Brown described the condition, which requires the licensee to obtain undertakings from the ultimate controller that they will not act in any way that will force the licensee to breach their licence or the Gas Act. Sonia explained that Ofgem proposed to revert to the standard form of this licence condition in all NTS and DN GT licences. Sonia noted that Ofgem proposed this treatment in relation to a number of Transco's financial licence conditions.

The group agreed that it was not necessary to review this condition again.

ASC 47 — Indebtedness

Sonia Brown noted that this condition was another of a suite of financial licence conditions where Ofgem proposed to revert to the standard condition. The group agreed that it was not necessary to review this condition again.

ASC 48 — Last Resort Supply: Payment Claims

Sonia Brown explained that this condition sets out the arrangements, where appropriate, for the recovery of last resort payments. Julian Bagwell said that it would be important for the reasonable endeavours obligation (on the frequency of changes to the charging methodology within a year) to recognise this licence condition. Sonia explained that this is one of the reasons why Ofgem considers it should be a 'reasonable endeavours' obligation rather than 'best endeavours'.

The group noted these points but did not consider that DISG needed to review this condition further.

5. Discussion of Special Licence Conditions

The group reviewed the special licence conditions, and agreed the following action:

Action: DISG to review the following special licence conditions: 19, 26, 27, 28-31, 34, 37.

The remaining licence conditions will not be further revisited within the DISG forum except in case of major changes. The remainder of this section provides a summary of the discussion.

Special Condition 1 — Interpretation and Construction

Sonia explained that this condition describes some of the rules for the interpretation and construction of Transco's Special Conditions. She said that this condition was similar to ASC 1.

The group agreed that it was not necessary to consider this condition further unless changes to the definitions were proposed.

Special Condition 2 — Restriction on Activity and Financial Ring-Fencing

Sonia Brown noted that this condition was one of a suite of financial licence conditions where Ofgem proposed to revert to the standard condition. The group agreed that it was not necessary to review this condition again.

Special Condition 3 — Availability of Resources

Sonia explained that this condition placed an obligation on the licensee to carry out properly and efficiently its transport and LNG storage business. Sonia said that, consistent with the electricity industry, Ofgem proposed that this condition applies to both DN and NTS GTs as a Special Standard Condition. The group agreed that it was not necessary to review this condition again.

Special Condition 4 — Investment Grade Credit Rating as Issuer of Corporate Debt

Sonia Brown noted that this condition was another of a suite of financial licence conditions where Ofgem proposed to revert to the standard condition. The group agreed that it was not necessary to review this condition again.

Special Condition 5 — Cross-Default Obligations

As per SpC 4.

Special Condition 9D — Restriction of Prices for LNG Storage Services

Sonia said that this condition was a further condition relating to LNG and therefore would be considered in conjunction with the other LNG licence conditions. The group agreed with this suggestion.

Special Condition 17 — Operational Guidelines for Balancing

Sonia explained that this condition was now redundant as it had been replaced by SpC 27. Peter Bolitho stated that it was very important that SpC 27 correctly allocated roles and responsibilities between the NTS and DN GTs. In particular, it was important that the NTS only retained responsibility for residual energy balancing, and that to ensure that this occurs it may be necessary to distinguish between system balancing and energy balancing. Sonia responded that she agreed with Peter's assessment, and suggested that the issue be considered as part of SpC 27.

The group agreed with this view and agreed that it was not necessary to review this condition again.

Special Condition 18 — Conveyance to Independent Systems

Sonia explained that this condition was not being considered as part of this consultation. The group noted this and requested to be updated at an appropriate time.

Action: Ofgem to provide update regarding the proposed treatment of SpC 18.

Special Condition 19 — Emergency Services to or on Behalf of Another Gas Transporter

Sonia set out that this licence condition set out obligations relating to the provision of emergency services in the event of a major loss of supply. Neil Shaw sought further information on the definition of a 'major loss of supply'. Sonia explained that the licence condition gave discretion to the Authority following consultation with the HSE. Neil Shaw further asked whether a loss of supply to 1000 customers on an IGT network would constitute a major loss of supply. Sonia explained that, in her view, the licence condition would need to be assessed on a case by case basis. This was confirmed by Farook Khan and Phil Scott.

Sonia explained that other issues raised by IGTs relating to potential new conditions would be considered at next week's DISG.

The group considered that this licence condition should be kept under review by the DISG.

Special Condition 23 — Provision of Meter and Meter Reading Services

Sonia explained that this was another metering licence condition and asked the group if they were happy to consider this condition in conjunction with the other metering conditions. The group agreed to consider all metering issues together.

Special Condition 25A — Assignment of Licence

Sonia explained that this licence condition restricts the ability of the licensee to transfer its licence (whole or in part) without the prior written consent of the Secretary of State. The group agreed that it was not necessary to review this condition again.

Special Condition 26 — Prohibited procurement activities

Sonia explained that this licence condition prohibits the licensee from carrying out procurement activities in relation to specified commodities including transportation commodities, gas or gas derivatives. Sonia suggested that Peter Bolitho's point regarding roles and responsibilities raised in relation to SpC 17 was relevant here and therefore that this condition would need to be reviewed by the DISG. The group agreed.

Special Condition 27 — Licensee's procurement and use of system management services

Sonia noted that this condition was similar to SpC 26, and would require a similar set of amendments. The group agreed to keep the condition under review.

Special Condition 28A — Revenue restriction definitions

Sonia explained that this was the first of a number of licence conditions that sets out the provisions relating to Transco's price control. Sonia noted that Transco has prepared a draft version of an amended licence which includes proposed changes to the price control conditions to support DN sales. Sonia said that although Ofgem had not reviewed the document and could not endorse its contents, Ofgem intended to publish draft licence on its website in order to encourage industry debate. She said that Transco's proposals for a draft licence would appear on Ofgem's website shortly.

Simon Goldring said that, given the importance of the price control conditions, it was appropriate for them to be considered by the DISG. Sonia suggested that, given the length and complexity of the provisions, it would be more effective to consider these conditions through the consultation process. The group agreed to review Transco's proposed changes to the licence conditions offline and come back with any comments.

Action: Group to review Transco's proposed licence drafting and provide comments. Action due at DISG 23.

Special Condition 28B — Restriction of revenue in respect of the NTS Transportation Owner Activity, Distribution Owner Activity and NTS System Operation Activity.

As per SpC 28A.

Special Condition 29 — Allocation of revenues and costs for calculation under price control

As per SpC 28A.

Special Condition 30 Supplementary provisions of the revenue restrictions

As per SpC 28A.

Special Condition 31 — Restriction of prices in respect of tariff capped metering activities

As per SpC 28A.

Special Condition 32 — Non-discrimination in the provision of metering activities

Sonia noted that this condition related to metering services, and therefore should be considered in conjunction with other metering licence conditions.

Stuart Hunter asked whether IDNs will have the ability to install Quantum metering systems. Sue Higgins said that GTs would be under an obligation to provide metering services, either competitively or under contract.

Concern was expressed regarding the potential for fragmentation of metering services. Beverley Grubb noted that that Quantum Meters are not capable of managing a lot of different charges, however, this is an issue that will need to be addressed regardless of DN sales because DNs already have separate price controls.

The group discussed the treatment of metering revenue under the price control. It was noted that there was likely to be a complicated set of revenue flows. Ofgem agreed to raise the issue with its metering team and provide further information.

Action: Ofgem to report to DISG regarding the treatment of metering revenue flows under the price control.

Special Condition 33 — Information to be Provided to the Authority in Connection with the Transportation System Revenue Restriction

Sonia explained that this condition requires the provision of information relating to the price control in specified table formats. She said Ofgem's position is that this condition should be split into Special Conditions applying to DN and NTS GTs. The group agreed with this approach and agreed that it was not necessary for the DISG to consider this licence condition again.

SpC 34 — Licensee's methodology for determining incremental entry capacity volumes

Sonia noted that an issue had been identified in relation to the release of exit capacity at DN entry points. She noted that this issue was scheduled to be discussed at DISG 21. The group agreed to keep the condition under review.

SpC 35 — NTS performance reporting

Sonia said that as this condition concerns only the NTS, Ofgem proposes to maintain this condition as a Special Condition in the NTS-GT licence. She said that Ofgem had not identified any changes to be made to the drafting of the condition. The group agreed with this approach and agreed that it was not necessary for the DISG to consider this licence condition again.

SpC 36 — LDZ incentive scheme and performance reporting

Sonia said that as this condition concerns only the DNs, Ofgem proposes to maintain this condition as a Special Condition in the DN-GT licences. She said that Ofgem had not identified any changes to be made to the drafting of the condition. The group agreed with this approach and agreed that it was not necessary for the DISG to consider this licence condition again.

SpC 37 — Exit code statement

Sonia noted that this licence condition could be affected by the Authority's decision in relation to the offtake arrangements and interruptions arrangements RIAs. The group agreed to review this condition in the context of the revised NTS exit capacity and interruptions arrangements.

SpC 38 — Restriction on Use of Information deriving from the EnMo Business

Sonia said that SpC 38 was no longer relevant as EnMo and Transco were no longer a part of the same corporate group. She proposed that the condition be deleted. The group agreed with this approach.

SpC 39 — Charging of Gas Shippers — Domestic Infill Premises

Sonia said that this condition sets out a maximum surcharge to be levied on shippers that supply customer in domestic infill premises. The group agreed that it was not necessary for the DISG to consider this licence condition again.