

## Michael Fews

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**From:** Hunter, Stuart [Stuart.Hunter@service.britgas.co.uk]  
**Sent:** 24 September 2004 10:07  
**To:** Michael Fews  
**Subject:** FW: British Gas Connection's Response - Notice undersections 7 (5) and 8 (4) of the Gas Act 1986, dated 23 July 2004

> -----Original Message-----

> From: Hunter, Stuart  
> Sent: 24 September 2004 09:57  
> To: 'Mick.Fews@Ofgem.gov.uk'  
> Subject: British Gas Connection's Response - Notice undersections 7  
> (5) and 8 (4) of the Gas Act 1986, dated 23 July 2004

> Dear Mick

> Thank you for your letter and Notice dated 23 July 2004, replacing the  
> previous Notice dated 22 July 2004, which sets out proposals to grant  
> 8 additional new Gas Transporter (GT) licences to National Grid  
> Transco (NGT). The licence proposal is made in relation to each of  
> NGTs' Distribution Networks (DNs) application in connection with the  
> proposed sale of one or more of these networks.

> We note in the Notice that Ofgem proposes to grant the new additional  
> GT licences to NGT.

> Whilst British Gas Connections is not concerned that NGT would not  
> fully meet the conditions and obligations set out in the additional  
> licences, provided they are identical to those of its existing  
> licence, we are minded to object to the proposal at this time and  
> would make the following representation for consideration by Ofgem  
> referenced to the above published notice in respect of DN sales.

> A. Notice under section 7 (5)

> Para. 3.

> NGT has already announced the sale of four DNs subject to the  
> necessary regulatory approvals. We understand that NGT proposes to  
> retain four DNs along with the NTS and it is not clear what number of  
> licences it will require to operate the NTS and the retained networks.  
> We believe however it is unlikely that the full quota of 8 additional  
> licences will be required.

> We note that the Authority at the time of the notice has not come to a  
> decision as to what extent the authorised area of each DN will be.

> In our view it is important that any new licences granted should be  
> geographically restricted in line with NGTs application in order to  
> provide a robust basis for the control and monitoring of unregulated  
> activity by DN owners outside their licence area. We believe that such  
> activity could adversely impact on emerging connections and  
> transportation markets. In addition should Ofgem decide to grant  
> licences with national coverage we foresee serious issues around  
> recognition of network growth and connections obligations across DN  
> boundaries and potential confusion arising with existing and new  
> consumers and consumer and industry bodies alike in respect of  
> identifying the regulated undertaker which holds the primary  
> connection obligations and responsibilities.

> Para. 4.

> We note that the Authority is of the view that the proposed granting  
> of new additional GT licences in the context of the proposed sale of  
> DNs would be in accordance with its principal objective, statutory and

> other duties.  
>  
> British Gas Connections does not share this view. In particular we  
> believe that granting the additional licences in respect of DN sales  
> may serve to adversely impact the interests of consumers connected to  
> IGT's networks.  
>  
> We note in Section 4 of the Notice reference to the process and  
> timescales for arriving at what modifications shall be made to the new  
> licences. British Gas Connections and other IGTs have participated,  
> and are progressing our serious concerns, on the Ofgem chaired working  
> groups established to consider what licence and other structural  
> changes shall be required to facilitate DN sales.  
>  
> In our view these discussions have not yet fully properly considered  
> or completed work to establish the full extent and costs to consumers  
> and industry of the necessary changes to the gas industry to  
> facilitate this fundamental restructure of ownership, licences,  
> licence obligations, service standards, processes and systems. Nor  
> have they fully answered how things shall work under the proposed new  
> ownership arrangements.  
>  
> For example Ofgem is presently considering, and is in the process of  
> informally consulting on, what special licence obligations should  
> apply to the new DN owners in respect of provision of emergency  
> services. The ability thus far for the GB wide gas industry to  
> properly manage emergencies and loss of gas occurrences is arguably  
> unequalled across the world. This is built on the provision of an  
> efficient and consistent end to end emergency service currently  
> provided by NGT. The continuation of a consistent and efficient  
> emergency service is of critical importance to the well being of  
> consumers, industry participants and the future of natural gas as a  
> viable energy source. In our view the emergency call, dispatch and  
> repair service should not be separated as a consequence of DN sales as  
> is currently proposed by Transco and future network owners.  
>  
> IGTs in total currently transport gas to less than five hundred  
> thousand properties across all DNs. The supply points are widely  
> dispersed geographically and the individual networks can range from a  
> few premises connected to several thousand premises connected. The  
> total number of premises connected to IGT networks is forecast to  
> double over the next 5 years. A key foundation of this market growth  
> has been that consumers whose properties are connected to IGT networks  
> are provided with an emergency and repair service which is equal to  
> those services provided to consumers on NGT's networks. This is only  
> possible because IGTs and NGT under the auspices of Ofgem have put in  
> place contracts which provide for emergency call handling engineer  
> dispatch and network repair services. It is assumed that these  
> contracts will pass unchanged to the new network owners at sale,  
> however there are no measures in place presently to ensure future  
> availability of this repair service at reasonable cost to IGTs from  
> the new DN owners or from NGT post sales.  
>  
> There is no evidence to support the view that provision of emergency  
> repairs to IGT networks are contestable or economically viable for any  
> individual IGT to undertake, or on a joint basis across all IGTs,  
> therefore it is not surprising that all IGTs contract their emergency  
> services with NGT. Indeed given the wide dispersal, randomness and  
> timing of emergency occurrences NGT's own emergency service could not  
> be provided efficiently or to acceptable customer service levels other  
> than on the basis that the workforce undertaking emergency duties have  
> the ability to fill in with other non emergency works in the locality  
> when not attending emergency calls. We therefore believe that it is  
> critical to the continuing operation of IGTs and the consumers  
> connected to their networks that an effective emergency repair service  
> with the benefit of scale remains in place at reasonable cost into the  
> future under the new DN ownership arrangements. In order to achieve  
> this objective BGCL is in full agreement with other IGTs and other  
> industry participants who are insistent that as a condition of sale  
> provision of an emergency repair service need to be embodied in the  
> new licence obligations for both NGT and DN purchasers.

>  
> We acknowledge that the conditions of the new GT licences have yet to  
> be determined and are currently under separate informal consultation  
> by Ofgem, however we nonetheless believe the interests of consumers  
> and industry participants are best served by Ofgem at this time by  
> delaying proposals to grant new licences until such time that the  
> proper analysis of risks, impact and costs and licence conditions are  
> properly considered, consulted and agreed in order that the licence  
> proposals can be suitably structured and agreed to meet the  
> requirements of consumers, industry participants and regulatory bodies  
> alike.  
>  
> regards  
>  
> Stuart Hunter  
> Commercial Manager  
>  
> Office - 01784 874572  
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