

Distribution Network Sales – Ofgem Steering Group (DISG)

Connections and Independent Gas Transporters

This note sets out the assumptions regarding new connections, and summarises the issues of concern for Independent Gas Transporters, in the context of network sales, which need to be addressed by the Steering Group.

Connections Generally

- Independent Distribution Networks (IDNs) will be required, under the Gas Act and licence, to offer connection services when requested to do so. Certain standards of service will apply in relation to these services, determined partly through existing licence conditions (Guaranteed and Overall Standards of Service) and potential future licence changes¹.
- Gas Transporter licences also requires that the licensee provide a new connection to a main, and the first 10 metres in the public highway, free of charge for domestic consumers resident in existing premises. This activity is funded from transportation and forms part of the transporters regulatory asset base. IDNs will be obliged, through their licences, to provide the same service.
- IDNs will be obliged to facilitate competition in connections and to maintain inter-transportation relationships with downstream operators – see IGT section below. The current frameworks for competitive connection services are largely external (IGEM and GIRS²) to NGT and can therefore easily be adopted by new IDNs. However, IDNs may choose to interpret legislative and licence requirements (which have driven Transco to open the connections market and establish the supporting framework) more narrowly.
- Transco currently fulfils its connection obligations through a service provider contract with Fulcrum Connections Limited, a NGT subsidiary company. To ensure a smooth transition, the Fulcrum contract will novate to IDNs on hive down completion and will operate for a minimum of six months. After this time IDNs may seek alternative service provision. NGT will maintain an option for IDNs to continue with the contract up to 2007.

Independent Gas Transporters (IGTs)

- IGTs own and operate downstream networks within Transco's local distribution zones, connecting predominantly new housing developments to the low and medium pressure networks.
- A contract exists between Transco and the IGT which governs the inter transportation arrangements. This Network Exit Agreement (NExA) details the physical characteristics and requirements upstream and downstream of the connections point and sets out the processes whereby joint Network Code obligations are met e.g. the facilitation of supply point transfers. These contracts will novate to IDNs at hive down completion.

IGT issues for consideration by the Steering Group:

Connections

- Performance: connection quotation and work execution standards of service will not be improved and may deteriorate when the networks are sold

¹ Ofgem are to commence a consultation in March 2004 with a view to replacing the connection Enforcement Order placed on Transco in 1999 with licence requirements relating to standards of service and compensation. It is assumed that these licence conditions will apply to all gas transporters (including iGTs).

² Gas Industry Registration Scheme administered by Lloyds Register of Shipping (Utilities Dept.)

A joint Note to DISG from National Grid Tranco and the Association of Independent Gas Transporters

- Standards: IDNs may seek a different regime/processes resulting in divergence and leading to additional costs
- Information: process divergence for provision of asset information will lead to additional costs. Accuracy of information may not improve or will deteriorate
- Data: transfer processes may diverge resulting in additional system/administration costs
- Competition: potential for anti-competitive pressure if IDN purchaser already holder of an IGT licence
- Policy: IGTs desire to self connect may be frustrated or not supported by IDNs

Exit Conditions

- Offtake criteria: coordination & management of CSEP offtake data may vary and historic pressure commitments may not be met
- Supply Point Administration: coordination & management of supply point information may diverge resulting in additional system/administration costs
- Agency: potential for mitigation for above but Agency Agreement needs to be made visible to confirm scope; and
- Supplier Hub: where is this going and will it facilitate a unified IGT supply point transfer process/system?
- Balancing and shrinkage: how will system balancing and shrinkage processes work? Commercial imperatives may drive divergence resulting in additional costs

Transportation Charging

- Rates: IDNs may choose to rebalancing transportation rates (to the CSEP) which, together with the impact on Relative Price Control (and forward price efficiencies built in the IGT special licence conditions), adds a further pricing risk and may limit the future market for IGTs; and
- Connection Charges: Ofgem drivers for rebalancing transportation & connections charges may cumulate the (transportation) price risk; and
- Pricing structure: divergence and changes may cumulate the price risk e.g. administration changes may increase as systems/processes diverge
 - Link with Agency scope, for mitigation (which could include CSEP Administration processing)

Emergency Service

Assumptions:

- ✓ Receipt and first line coordination of emergency works will remain a Transco responsibility
- ✓ IDNs will be obliged to offer an emergency call out service
- ✓ Emergency Contract (works element) will transfer to IDNs unchanged

IGT issues for consideration by the Steering Group:

- Repair: IDNs may wish to withdraw from on-site repair element of contract leading to additional costs in setting up alternative arrangements
- Billing: processes and systems may diverge leading to additional administration/system costs
- Change management: Contract and process change must be visible and include consultation to ensure appropriate risk assessment undertaken by IGTs
- Process separation: Inefficiencies may be created by the separation of call handling/dispatch and field resource management
- Call handling contract: how will the current IGT call handling contract form and rates work with IDNs?
- IGT dispatch and response contract: Will the current form and rates be replicated for IDNs?

Area 5 – Policy

Assumptions:

- ✓ IDNs will adopt Transco engineering policies and standards at transfer of ownership
- ✓ IDNs will adopt Transco commercial policies at transfer of ownership

IGT issues for consideration by the Steering Group:

- General engineering policies: policies are likely to diverge which may lead to additional cost and risk
- General engineering standards: practices and materials may diverge which may lead to additional cost and risk
- GIRS: IDNs may not wish to continue with GIRS arrangements leading to additional cost and risk
- Adoption: procedures may diverge (mostly a UIP issue) leading to additional cost and risk
- Reinforcement: IDNs may adopt a different view on chargeable reinforcement works e.g. move from shallow to deep(er)
- Economic Test: Transco criteria may not apply or may be changed leading to additional cost and risk
- Final connection: policy and procedures may diverge leading to additional cost and risk