

The background of the slide features a close-up, slightly blurred image of electrical components, including what appears to be a circuit board with various components and a blue plastic component, possibly a switch or connector, in the upper left corner.

# Initial thoughts on restructuring of Transco plc's GT licences

Summary of responses

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## 1. Background

## 2. Key issues raised by respondents

## 3. Way forward

# Background: consultation document

- Consultation document on “initial thoughts” published on 2 September 2004
- Three separate stages of restructuring of Transco’s existing GT licence (and possible new additional GT licences) described in the document:
  - Section 23 notice;
  - Section 8AA process; and
  - Possible further conditions as part of consent under Amended Standard Condition 29 (Disposal of Assets)
- 18 responses to the consultation document received

# Background: purpose of this presentation

- The document described:
  - Regulatory framework relevant to proposed DN sales
  - Proposed structure of the licences to be established
  - Key issues relating to proposed changes
  - Proposed changes to individual licence conditions
  - Proposed new licence conditions required
- Objective of this presentation are:
  - Set out some of those issues that received most comment in consultation responses
  - Indicate the range of opinion expressed by respondents
  - Describe way forward

1. Background

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2. Key issues raised by respondents

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3. Licence conditions

# Key issues raised by respondents

Responses to the consultation largely centred on the following issues:

- Transportation charging arrangements
- Emergency services coordination
- System operator managed services agreements (SOMSA's)
- Network Code and offtake arrangements
- Price controls and incentive arrangements
- Pipeline security standards
- Proposed licence modification procedures
- Gateway requirements
- LNG

# Transportation charging arrangements

<b>Issue overview</b>	Separate DN ownership may lead to differences in arrangements for charging for transportation, and increased frequency of changes
<b>Summary of responses</b>	<p>General support for the proposed role of Joint Office</p> <ul style="list-style-type: none"> <li>– 3 respondents concerned proposals may not go far enough</li> <li>– 3 respondents believe scope for flexibility must be retained</li> </ul>
	<ul style="list-style-type: none"> <li>■ Responses split between those that favoured “reasonable endeavours” on limiting changes to charging methodologies, and those who wanted to restrict changes to 1 per year</li> <li>■ 1 respondent stated that allowing multiple adjustments per year would impose unreasonable costs on users</li> <li>■ 1 respondent stated that if changes to charges are limited to one per year, there is a greater danger of the accumulation of over/under-recovery of charges</li> </ul>



# Emergency services coordination

<b>Issue overview</b>	Provisions are required to ensure responsibilities are clear in response to emergencies at DN boundaries, and provision of first response emergency services to IGTs and the NTS
<b>Summary of responses</b>	<ul style="list-style-type: none"> <li>■ Majority of respondents supported introduction of new licence condition for DNs, requiring notified DN to make safe the incident</li> <li>■ Most respondents supported the introduction of a licence obligation on DN-GTs to provide first response emergency services to IGTs <ul style="list-style-type: none"> <li>— Mixed response on inclusion of repair and restoration services in this obligation</li> <li>— 10 respondents favoured their inclusion, 6 respondents were against their inclusion</li> </ul> </li> <li>■ General consensus that it is appropriate to place an obligation on the DNs to provide first response emergency services to NTS. One respondent stated this should be a commercial arrangement</li> </ul>

# System operator managed service agreements

<b>Issue overview</b>	<p>Ofgem proposes that SOMSAs – arrangements between Transco and DNs for Transco to provide SO services – should not be regulated</p>
<b>Summary of responses</b>	<p>Reponses to this issue were mixed</p> <ul style="list-style-type: none"> <li>■ 5 respondents considered that SOMSAs should be regulated</li> <li>■ 3 respondents suggested that SOMSAs should not be regulated</li> <li>■ Some respondents commented that regulatory oversight warranted in the short term (at least until Ofgem is satisfied there is no undue discrimination between RDNs and IDNs)</li> <li>■ 1 respondent thought that SOMSAs should be defined as part of the offtake arrangements</li> </ul>

# Network Code and Offtake arrangements

<b>Issue overview</b>	<p>Two proposals for the governance of the offtake arrangements were presented in the document; either a “UNC only” approach, or a “UNC plus offtake code” approach</p>
<b>Summary of responses</b>	<p>Reponses to this issue were mixed</p> <ul style="list-style-type: none"> <li>■ 5 respondents supported the (Transco preferred) approach of UNC plus offtake code</li> <li>■ 3 respondents preferred the UNC only approach</li> <li>■ Some respondents stated that the “UNC plus offtake code” approach would reduce simplicity and endanger consistency. One respondent compared this approach (unfavourably) to electricity (in which major industry codes are stand-alone)</li> <li>■ One respondent stated it was inappropriate for “unaffected parties” to be able to amend the offtake arrangements</li> </ul>

# Price controls and incentive arrangements

## Issue overview

DN sales mean that the current price control arrangements (including incentives) need to be reflected in each DN-GT licence. Ofgem has concluded that Transco's price control will not be reopened. Incentive arrangement (resulting from Offtake and Interruptions RIAs will be included in DN-GT licences.

## Summary of responses

- Majority of respondents who expressed a view supported Ofgem's view that it would be inappropriate to reopen Transco's price control
- 1 respondent favoured reopening Transco's price control
- 2 respondents supported a proposal of having an initial one year DN incentive scheme
- Some respondents stated incentive arrangements should not to be unduly complicated
- 1 respondent supported safety net proposals (stating these should be retained until the end of the DN sales process)

# Pipeline security standards

<b>Issue overview</b>	<p>Transco's licence requires network security consistent with the 1 in 20 obligation. Should this apply to both NTS-GT and DN-GT licences following DN sales?</p>
<b>Summary of responses</b>	<ul style="list-style-type: none"> <li>Most respondents stated that current security standards should apply to all licences</li> <li>One respondent expressed concern that the ability of the DNs to fulfil the obligation is dependant upon the allocation of capacity by the NTS</li> <li>One respondent stated that the NTS should not be subject to the 1 in 20 obligation, as the combination of DN requests for exit capacity and current entry capacity arrangements should provide sufficient pipeline security</li> <li>One respondent considered that a methodology behind the 1 in 20 obligation should be set out in the UNC</li> </ul>

# Licence modification procedures

<b>Issue overview</b>	<p>The statutory collective licence modification (CLM) process does not apply to Standard Conditions to the extent that they have been modified (i.e. Amended Standard Conditions).</p>
<b>Summary of responses</b>	<ul style="list-style-type: none"> <li>■ Majority of respondents favoured the development of a private CLM procedure</li> <li>■ Most favoured retaining current statutory CLM procedures (e.g. 20% objection rule)</li> <li>■ 2 respondents had significant legal concerns over private CLM (1 respondent proposed waiting until a new revised statutory CLM procedure is developed)</li> <li>■ 1 respondent concerned how the proposals would affect IGTs (i.e. how they could be indirectly affected by changes to licence conditions of other GTs)</li> </ul>

# Gateway requirements

<b>Issue overview</b>	<p>New licence conditions may be required to implement the gateway requirements identified in the July 2003 consultation. These relate to roles and responsibilities, agency and governance, offtake arrangements and interruption arrangements.</p>
<b>Summary of responses</b>	<ul style="list-style-type: none"> <li>Some respondents noted that more detail was required in some “gateway requirement” areas before these conditions could be drafted</li> <li>1 respondent did not believe all specified issues were strictly gateway requirements</li> <li>1 respondent favoured de-linking interruption and offtake reform from DN sales – otherwise the timetable could be delayed</li> <li>1 respondent acknowledged that defining new conditions to cover the gateway requirements was a “necessary but challenging” task</li> </ul>

# LNG

<b>Issue overview</b>	The consultation document proposed that, given LNG storage facilities are connected to the NTS, the most appropriate location for the relevant licence obligations should be Transco's NTS-GT licence only
<b>Summary of responses</b>	<ul style="list-style-type: none"> <li>6 respondents agreed LNG should be dealt with by special conditions in the NTS-GT licence only</li> <li>1 respondent believed LNG storage arrangements should be part of both NTS and DN-GT licences</li> <li>Some respondents stated that the approach chosen should not constrain the future development of LNG import facilities</li> </ul>



1. Background
  2. Key issues raised by respondents
  3. Way forward
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# Way forward

- Section 23 notice and informal consultation issued in mid-November
- Views on this document will be invited
- Feedback received on this will inform Section 8AA process and consent to disposal
- Section 8AA process issued in mid-February, completed in mid-April



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