



## Potential sale of gas distribution networks Section 23 formal consultation & Section 8AA informal consultation

Development & Implementation Steering Group  
30 November 2004

# Outline of presentation

- Overview
- Formal Section 23 consultation:
  - Overview
  - Special Condition 28A
  - Special Condition 28B
  - Special Condition 29
  - Special Condition 30
  - Special Condition 33
  - Special Condition 34, 35, 36 & Schedule A
- Informal Section 8AA consultation:
  - Overview of key issues
- Way forward

# Overview of consultation document (1)

## Section 23

Separation of price control conditions

Formal consultation:

- Chapter 3 and Appendices 5 & 8
- Responses by 23 December 2004

## Section 8AA

Restructuring of licenses

Informal consultation:

- Chapters 4, 5 & 6 and Appendices 6 & 7
- Responses by 7 January 2005

# Overview of consultation document (2)

1. Introduction

2. Background

3. Section 23 notice & formal consultation

4. Key issues

5. Existing Transco plc licence conditions

6. New licence conditions

7. Way forward

Key Appendices:

**Appendix 5 Section 23 notice**

- Proposed drafting for NTS and each DN licensee

**Appendix 6 Section 8AA mapping tables**

**Appendix 7A Designated Standard Conditions**

**Appendix 7B Composite Standard Special and Special Conditions**

**Appendix 8 Section 23 Proposed Revenue Restriction Definitions**

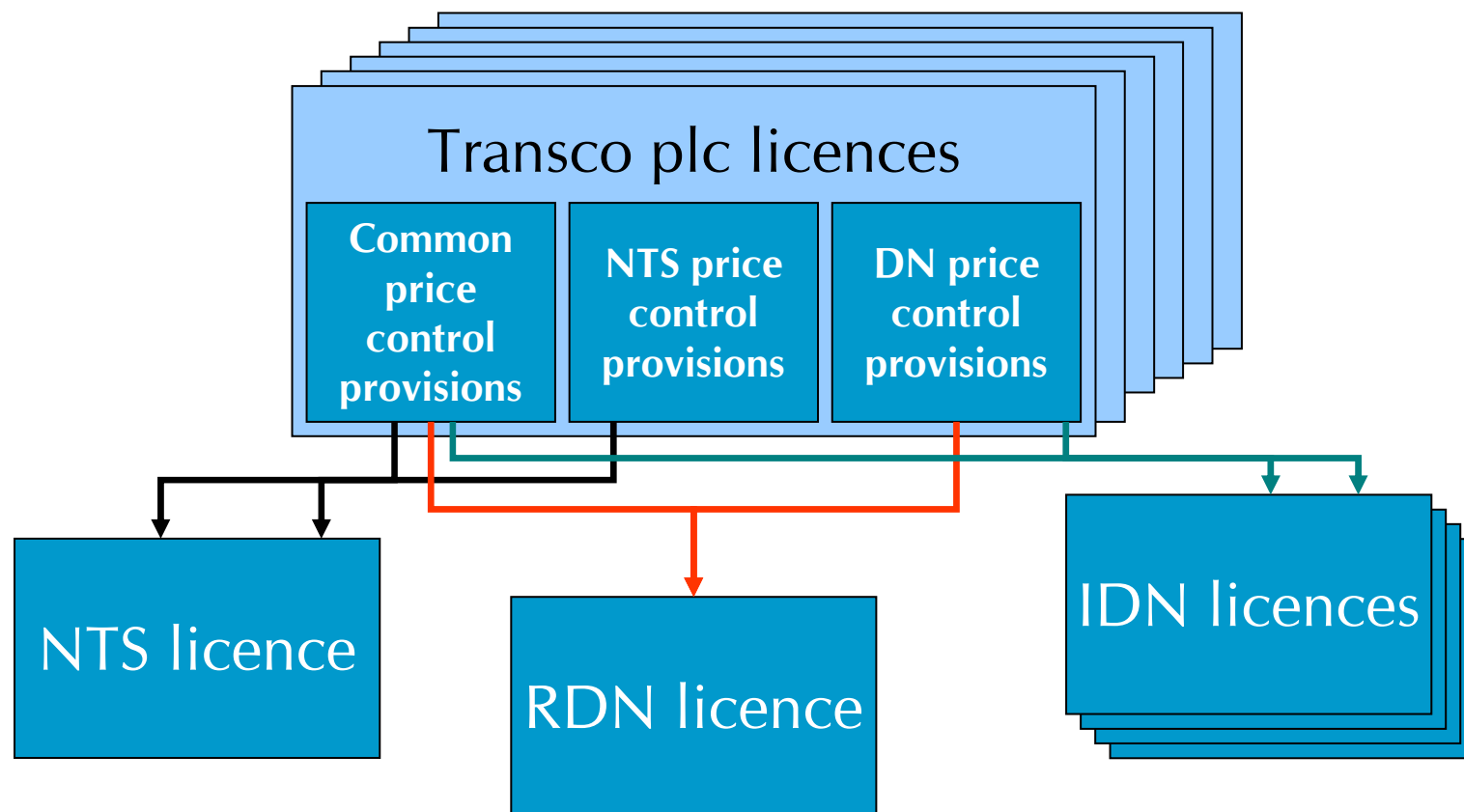
# Outline of presentation

- Overview
- Formal Section 23 consultation:
  - Overview
  - Special Condition 28A
  - Special Condition 28B
  - Special Condition 29
  - Special Condition 30
  - Special Condition 33
  - Special Condition 34, 35, 36 & Schedule A
- Informal Section 8AA consultation:
  - Overview of key issues
- Way forward

# Outline of presentation

- Overview
- Formal Section 23 consultation:
  - Overview
  - Special Condition 28A
  - Special Condition 28B
  - Special Condition 29
  - Special Condition 30
  - Special Condition 33
  - Special Condition 34, 35, 36 & Schedule A
- Informal Section 8AA consultation:
  - Overview of key issues
- Way forward

# Separation of price controls



# Section 23: Ofgem's proposals for change

## Separation of price control conditions

Special Condition 28A: Revenue restriction definitions

Special Condition 28B: Restriction of revenue..

Special Condition 29: Allocation of revenues and costs

Special Condition 30: Supplementary provisions...

Special Condition 33: Information to be provided to the Authority

Special Condition 34: Methodology for determining incremental entry capacity.

Special Condition 35: NTS performance reporting

Special Condition 36: LDZ incentive scheme & performance reporting

Schedule A: NTS output measures for the price control



# Outline of presentation

- Overview
- Formal Section 23 consultation:
  - Overview
  - Special Condition 28A
  - Special Condition 28B
  - Special Condition 29
  - Special Condition 30
  - Special Condition 33
  - Special Condition 34, 35, 36 & Schedule A
- Informal Section 8AA consultation:
  - Overview of key issues
- Way forward

# Special Condition 28A

## ■ Revenue restriction definitions

**Revenue restriction definitions in respect of the NTS transportation owner activity and NTS system operation activity**

**Revenue restriction definitions in respect of the Distribution Network**

**Common definitions  
e.g. GWh**

**NTS only definitions  
e.g. locational actions**

**DN only definitions  
e.g. large user quantity**

Change references to “LDZ” to “DN” as appropriate  
Licensee’s Network Code → Transco plc’s Network Code

# Outline of presentation

- Overview
- Formal Section 23 consultation:
  - Overview
  - Special Condition 28A
  - Special Condition 28B
  - Special Condition 29
  - Special Condition 30
  - Special Condition 33
  - Special Condition 34, 35, 36 & Schedule A
- Informal Section 8AA consultation:
  - Overview of key issues
- Way forward

# Special Condition 28B (1)

- Restriction of revenue

The changes proposed merely separate existing revenue restrictions.

No re-opening of the price controls.

# Special Condition 28B (2)

## ■ Restriction of revenue

Remove LDZ references from exit incentive

**Restriction of revenue in respect of the NTS transportation owner activity and NTS system operation activity**

**Part 1a: NTS TO activity revenue restriction**

**Part 2: NTS SO activity revenue restriction**

**Restriction of revenue in respect of the Distribution Network**

**Part 1b: LDZ TO activity revenue restriction**

**Part 2: “statement of actual interruption”**

Clarify “prescribed rates” definitions  
Tidy up e.g.  $TOK_t$  formula for 1 April 2002 replaced by equivalent value

# Special Condition 28B (3)

## ■ Separation of DN price control:

Restriction of revenue in respect of the Distribution Network: RDNs	Part 1a: Not used	Part 1b: RDN1 RDN2 RDN3 RDN4	Part 2: “statement of actual interruption” only
Restriction of revenue in respect of the Distribution Network: IDN	Part 1a: Not used	Part 1b: Provisions specific to that IDN	Part 2: “statement of actual interruption” only

Remove i  
subscripts &  
include only DN  
specific numbers

New start point  
– 1 April 2004  
i.e. date of  
separation.

# Special Condition 28B (4)

- Treatment of DN exit capacity incentive:
  - Part 2 of Special Condition 28B – NTS related with exception of exit capacity investment incentive revenue incentive > 15 days of interruption.
  - This scheme recently subject to a +/- £1m cap / collar across the DNs and the equivalent NTS incentive
  - In 2003/4, the DNs represented circa 2% of total out-turn target → circa +/- £20,000 i.e. circa £2,500 per DN
  - Not simple to split:
    - DN incentive target not split between DNs
    - Joint cap / collar across DNs and NTS
  - Ofgem proposed treatment:
    - DN related references deleted from NTS licence
    - Reporting obligations with respect to interruptions retained within DN licences.

# Outline of presentation

- Overview
- Formal Section 23 consultation:
  - Overview
  - Special Condition 28A
  - Special Condition 28B
  - Special Condition 29
  - Special Condition 30
  - Special Condition 33
  - Special Condition 34, 35, 36 & Schedule A
- Informal Section 8AA consultation:
  - Overview of key issues
- Way forward



# Special Condition 29

## Allocation of revenue and costs

**Allocation of revenues and costs for calculations under the price control in respect of the NTS transportation owner activity and NTS system operation activity**

**Allocation of revenues and costs for calculations under the price control in respect of the Distribution Network**

**Paragraphs 1,  
3, 4, 5, 6, 7**

**Paragraph 2:  
NTS related  
activities  
retained**

**Paragraph 8:  
Retain relevant  
definitions &  
amend**

**Paragraph 2:  
DN related  
activities  
retained**

**Paragraph 8:  
Retain relevant  
definitions &  
amend**

Amend cross-references as appropriate.

# Outline of presentation

- Overview
- Formal Section 23 consultation:
  - Overview
  - Special Condition 28A
  - Special Condition 28B
  - Special Condition 29
  - Special Condition 30
  - Special Condition 33
  - Special Condition 34, 35, 36 & Schedule A
- Informal Section 8AA consultation:
  - Overview of key issues
- Way forward

# Special Condition 30

## ■ Supplementary provisions

**Supplementary provisions of the revenue restrictions in respect of the NTS transportation owner activity and NTS system operation activity**

**Supplementary provisions of the revenue restrictions in respect of the Distribution Network**

**Paragraphs 1,  
3, 5**

**Paragraph 2:  
Reflect  
SpC28B  
separation**

**Paragraph 4b:  
NTS related  
activities  
retained**

**Paragraph 2:  
Reflect  
SpC28B  
separation**

**Paragraph 4b:  
DN related  
activities  
retained**

Amend cross-references as appropriate.

# Outline of presentation

- Overview
- Formal Section 23 consultation:
  - Overview
  - Special Condition 28A
  - Special Condition 28B
  - Special Condition 29
  - Special Condition 30
  - Special Condition 33
  - Special Condition 34, 35, 36 & Schedule A
- Informal Section 8AA consultation:
  - Overview of key issues
- Way forward

# Special Condition 33

## Information to be provided to the Authority

**Information to be provided to the Authority in connection with the transportation system revenue restriction in respect of the NTS transportation owner activity and NTS system operation activity**

Statement of information required for the NTS network

**Information to be provided to the Authority in connection with the transportation system revenue restriction in respect of the Distribution Network**

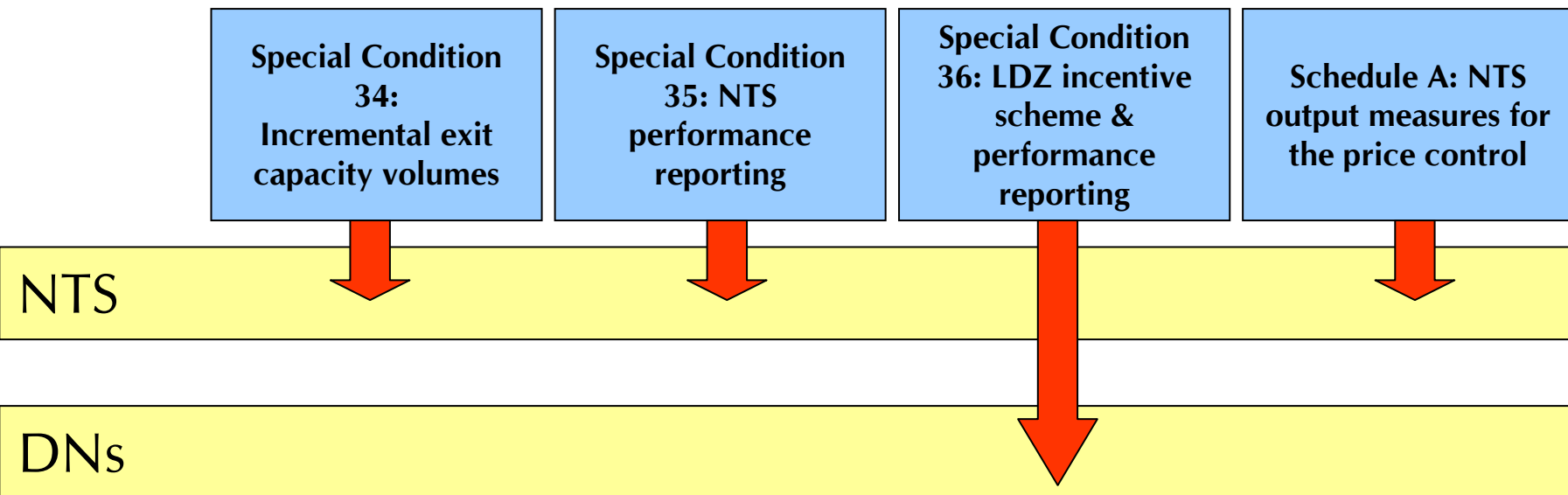
Statement of information required for the Distribution Network

Amend cross-references as appropriate.

# Outline of presentation

- Overview
- Formal Section 23 consultation:
  - Overview
  - Special Condition 28A
  - Special Condition 28B
  - Special Condition 29
  - Special Condition 30
  - Special Condition 33
  - Special Condition 34, 35, 36 & Schedule A
- Informal Section 8AA consultation:
  - Overview of key issues
- Way forward

# Other proposed changes



# Outline of presentation

- Overview
- Formal Section 23 consultation:
  - Overview
  - Special Condition 28A
  - Special Condition 28B
  - Special Condition 29
  - Special Condition 30
  - Special Condition 33
  - Special Condition 34, 35, 36 & Schedule A
- Informal Section 8AA consultation:
  - Overview of key issues
- Way forward



# Section 8AA informal consultation

- Key issues
  - Structure of the licences
  - Governance arrangements
  - System security
  - Price controls
  - Network service agreements (NSAs)
  - Standards of performance
  - Business separation
- These will be discussed at DISG 29 next week.

# Outline of presentation

- Overview
- Formal Section 23 consultation:
  - Overview
  - Special Condition 28A
  - Special Condition 28B
  - Special Condition 29
  - Special Condition 30
  - Special Condition 33
  - Special Condition 34, 35, 36 & Schedule A
- Informal Section 8AA consultation:
  - Overview of key issues
- Way forward

## Section 23 - way forward

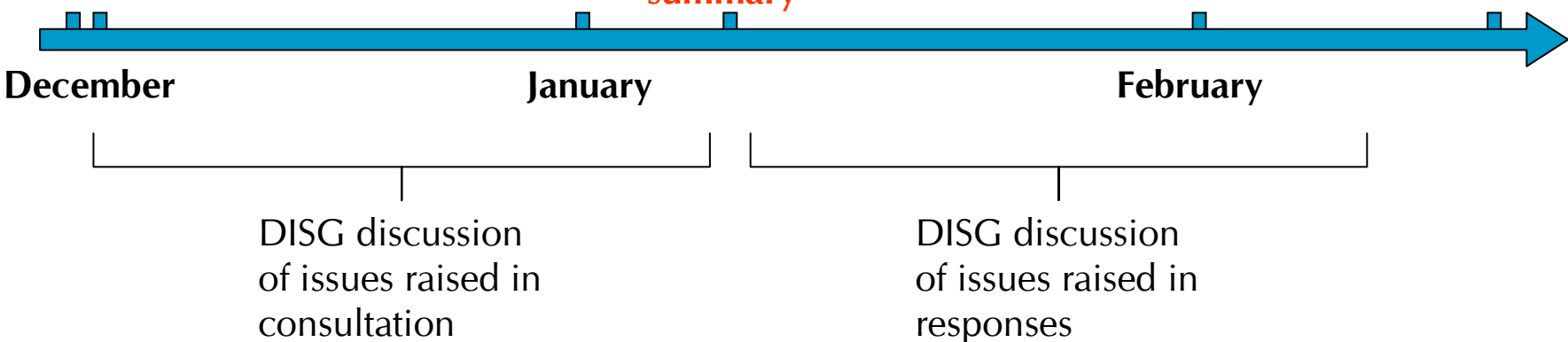
- Views invited by 23 December 2004

# Section 8AA – way forward

Group members  
to provide  
feedback on  
issues requiring  
further discussion  
by 3 December

**Informal s8AA  
consultation  
responses due  
7 January –  
please provide  
summary**

Formal s8AA  
consultation  
scheduled to  
be released  
mid February





Promoting choice and value for all  
gas and electricity customers