



Sonia Brown  
Director, Transportation  
Ofgem  
9 Millbank  
London SW1P 3GE

**Direct lines:**  
**Tel: 020 7257 0132**  
**Fax: 020 7257 0101**

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Dear Sonia

## **Potential Sale of Distribution Networks by National Grid Transco Licensing Next Steps: Informal Consultation**

I refer to the above document published by Ofgem in December 2004. This document contained two sections: one a formal consultation to modify each of Transco's six licences in order to place related price controls in each one; and the second to consult on licence changes required for National Grid Transco (NGT) to sell one or more of its distribution networks (DNs).

Given the extensive amount of meetings and lengthy papers being produced by both Ofgem and NGT in relation to the DN Sale project, we cannot respond fully to all issues raised in this document. The Authority will need to consider carefully whether it has properly complied with its obligations under the Gas Act to consult, including having regards to principles of proportionality and transparency before making any decisions regarding the Section 23 notices and issues raised in respect of Section 8AA. We reserve our right to object to any notices and expect our objections, if any, to be fully considered by the Authority.

### **Collective Private Licence Condition**

We support the views that have already been put forward by a number of parties, including the Gas Forum, Ofgem's proposed Collective Private Licence Condition (private CLM). We consider it at best inappropriate for licence arrangements to attempt to mimic primary legislation and question its legality. It will be essential for the Authority to make clear *why* it considers this approach to be legal in any final decision it makes. We wish to make clear that we object to this being introduced into the GT licences.

### **Governance & Transportation Arrangements**

We welcome Ofgem's proposals to minimise and coordinate transportation pricing changes to only two times a year. The volatility that was witnessed after the introduction of the 2002-97 was, at least in part, as a result of the changes Ofgem introduced at that time requiring Transco to meet target income within the year. We consider that these clauses should be revisited to ensure consistency in the licence conditions. Stability of transportation prices is key to ensuring an competitive supply market and should be a key focus for ensuring the customers' interests are protected. We must note that in earlier years, transportation prices tended to change only once

per year in October and consider that the aim must be to return to that arrangement which allowed Transco to reasonably take forward under- and over-recoveries through 'k' without the current distortions to the market. We would recommend that the reasonable endeavours obligation is for transportation charges to change only once per year, each October.

We continue to be concerned that the transportation charging methodologies will diverge. This will have a significant impact on systems and billing and Ofgem does not appear to have properly taken account of this risk in its impact assessment document, instead treating it as zero cost. SGD supplies multi site consumers and this segment is most likely to be negatively affected by any divergence of pricing methodologies. Experience in electricity, as demonstrated through the Customer Transfer Process, shows that transfers for multi-site customers can be very difficult in a dispersed system. While this is being *somewhat* ameliorated through the establishment of the agency, different prices will make it more difficult to tender, respond to tender, bill, etc and the potential negative effects of this should not be underestimated.

We advocate a single pricing methodology for all the DNs. The efficiencies that may be possible by methodologies more reflective of each DN are far outweighed by the disbenefits to the operation of the competitive supply market.

### **Emergency services coordination**

While we have limited interest in IGTs, we are concerned that an unsatisfactory solution for first response services to IGTs is being proposed. Ofgem appears to be unwavering in its search for areas to introduce "contestability". It is more important to ensure that those areas that are already open to competition – such as gas pipeline extension, remain so. We are aware of concerns that have been expressed about Ofgem's proposals having a negative impact on infills. Extending the gas network is a key facet to the fuel poverty strategy and it would be unfortunate if the DN sale had a negative consequences for this key customer group.

### **DN Interruption Change**

We object to the introduction of licence conditions on the DNs in respect of interruption "reform". Ofgem has powers to review this at any future point and it does not seem appropriate to be using this process in this manner. We do not consider that Ofgem has provided adequate explanation as to why it considers changes to the DN interruption regime to be a "gateway" requirement for the DN Sale in the first place. Its earlier comments appeared to be in relation to the NTS or based on incorrect evaluations of previous documents and discussions. Ofgem now appears to be stating that the changes it is making now could create inconsistency so this condition is required. It is not.

While SGD has always considered that there are sensible changes that *may* be made to the interruptions arrangements, we see no reason to link it to the DN Sale in any way. If reform is desired by customers or shippers, a review modification can be raised. Ofgem's commitment to do an impact assessment on any potential reform only further undermines its argument that this licence condition should be included as part of the Section 8AA process. Ofgem should be going through a strategy process and it is through this that consideration should be given regarding whether it is a priority to put resources for any changes to the DN interruptions regime. Ofgem's proposal is at odds with its Gas Act requirements to be accountable and transparent.

## **Network Code & Short Form Network Code**

Our key concern with respect to the proposed Uniform Network Code (UNC) is in relation to governance. Along with other shippers, we have been active in trying to improve the governance of the current Code in light of experience to date. We consider that the current arrangements work as well, or better, than similar arrangements in gas and do not require wholesale reform. However, it is important to recognise the experience of shippers and their requirements. In our view, while one paper was once presented, there has been no consultation on the arrangements for the Panel and near to no discussion. We hope that this will now be taken forward.

We welcome Ofgem's proposals to put an obligation on the Transco and the IDNs to promote efficiency in the implementation and administration of the Network Code.

## **Price controls**

We note that Ofgem states that it is not re-opening price controls. We do not consider that this is entirely the case. While the RPI-X controls are not being touched, changing incentives and particularly introducing new incentives does affect revenues that can be collected and therefore constitutes a re-opening of the price controls.

## **Conclusion**

While we welcome certain aspects of Ofgem's proposals contained within this paper, we remain concerned about significant other areas. We recommend that Ofgem reconsiders the collective CLM and licence condition requiring proposals on DN interruption.

Yours sincerely

Tanya Morrison  
**Regulatory Affairs Manager**