

Sonia Brown
Director, Transportation
Office of Gas and Electricity Markets
9 Millbank
London SW1P 3GE

7th January 2005

Dear Sonia,

**National Grid Transco – Potential Sale of Gas Distribution Networks Businesses
Licensing: Next Steps**

Thank you for the opportunity to respond to this consultation. This response is submitted on behalf of ScottishPower UK Division (SP), which includes the UK energy businesses of ScottishPower, namely ScottishPower Energy Management Ltd, ScottishPower Generation Ltd and ScottishPower Energy Retail Ltd.

Transportation Charging and Methodology

Prior to a DN Owner proposing changes to their charges, under Standard Special Condition 4A, there is a requirement to use all reasonable endeavours to give the Authority at least 150 days notice before the proposed date of their implementation together with a reasonable estimate of the effect of the proposals. Where changes are made to Charging Methodologies, DN Owners are required under Licence to consult with gas shippers on the proposed modification and allow them a period of not less than 28 days within which to make written representations. Under the current Transco Network Code there is an obligation to provide 2 months notice of implementation of changes to transportation and metering charges.

SP have frequently raised concerns over the proposed frequency of change to transportation charging. Most notably in a number of pricing consultations, we have expressed what we have believed to be a majority view that changes to charges and methodologies should only be permitted annually. Under the proposed Standard Special Condition 5A, DN Owners are required to use reasonable endeavours not to propose changes to Charging Methodologies more frequently than twice per year. This aligns with the proposed frequency on changes to charges as described within Standard Special Condition 4A.

Whilst changes to charges may be permitted on a bi-annual basis, we do not support the proposed frequency of change to Charging Methodologies of twice per year. We believe

that methodology changes should not be more frequent than one per annum in order to reduce the impact on Shipper systems and operating procedures.

We believe that any potential change that deviates from the current Transco Charging Methodology requires to be fully evaluated via a consultation process prior to any decision being made by the Authority on whether or not to grant approval for the methodology to be implemented. We also believe that Ofgem should undertake an Impact Assessment before approving any change. Consideration of these changes at an early stage will be beneficial to all parties and will allow Shippers to fully assess the implication of any such change not only to our systems but our tariff arrangements.

As mentioned previously, current obligations specify that DN Owners are required to consult with Shippers for a minimum period of 28 days on proposed changes to methodologies, however depending on the complexity and extend of the proposals, this may not allow sufficient time for Shippers to fully assess the impact to their systems. Recognising that this is a minimum 28-day period, we would expect the new Network Owners to extend this period considerably when more complex changes are required.

Lessons can be drawn from the experience of Shippers in relation to iGTs and the adoption of differing Charging Methodologies. Shippers have faced extensive challenges in relation to the visibility of charging structures and the subsequent validation of Transportation Invoices.

Therefore, SP believe that the frequency of potential changes to charges and in particular Methodologies requires to be kept to a minimum to ensure that Shippers costs are not unduly increased.

System Security

Ofgem has proposed that the current arrangements relating to services provided by Transco to iGTs should remain unchanged, with the present contractual arrangements continuing. We agree with this, having concerns over future service provision in relation to the repair and restoration of supply for customers supplied over iGT Networks should there be a deviation from current arrangements. Ofgem has committed to undertake a full review of emergency service provision to iGTs when the current contractual arrangements expire in 2006. SP believe that Suppliers should also be fully consulted in any future contractual arrangements to ensure they are aware of all implications of these arrangements.

Business Separation

Regarding business separation, we believe that the gas regulatory regime should follow a similar framework to that prescribed within the electricity market and that Ofgem should actively carry out the reporting and auditing of adherence thereof, particularly for those gas network owners who are also engaged in a number of related activities across the energy markets.

However, for such a regime to operate effectively interpretation of rules surrounding business separation require to be clarified and adopted in a consistent manner e.g. rules regarding branding and physical separation.

Connections

SP welcome the replacement of the Enforcement Order currently placed on Transco with the introduction of a new Licence Condition to apply to each DN Owner with respect to the provision of connections. We welcome the inclusion of Guaranteed Standards of Performance to ensure that DN Owners are penalised for failure to provide the appropriate level of service. However, robust monitoring of overall performance requires to be enforced to ensure that customer service standards do not further deteriorate. More detailed comments on these proposals are contained within a separate response to the consultation on connections.

Should you wish to discuss further please do not hesitate to contact Steve Gordon on 0141 568 2464.

Regards,

A handwritten signature in black ink, appearing to read 'Alex Brennan'.

Alex Brennan
Commercial & Regulation Director