

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

Head Office  
Inveralmond House  
200 Dunkeld Road  
Perth  
PH1 3AQ

Our Reference:  
Your Reference:

Telephone: 01738 456400  
Facsimile: 01738 456415  
email:

Date: 23 December 2004

Dear Sonia

**National Grid Transco – Potential Sale of Gas Distribution Network Businesses.  
Licensing Next Steps. Formal consultation under Section 23 and informal  
consultation under Section 8AA of the Gas Act 1986.**

Further to our letter and response to the formal Section 23 consultation dated 17 December, we have attached to this letter our response to the informal consultation under Section 8AA associated with the above consultation.

In essence, we have identified three key issues:

1. Metering. We do not believe that it is appropriate for the independently owned Distribution Networks (IDNs) to be subject to a metering obligation of last resort. In our view, the impact of this proposal has not been adequately addressed in respect of stranded assets and the inherent disadvantage of the IDN when compared to Transco's retained Distribution Networks (RDNs). Furthermore, we are concerned that no analysis has been carried out on the impact this proposal would have on the RGMA baseline and associated industry systems. We believe that this piece of work has so far been omitted from the impact assessment associated with the DNs and should therefore be conducted before the obligation is imposed on the IDNs.

Transco's metering business will be active in each of the IDNs following the sale and we see no reason why therefore, Transco's metering business should not be required to fulfil a GB-wide metering obligation until such time as metering competition is sufficiently established and the obligation can be removed altogether.

2. Storage. We do not agree that where references to LNG storage have been removed from the licence conditions that relate to DN activities, it is appropriate instead to refer to a list of storage facilities as currently proposed. The list of storage facilities were removed from Transco's licence some time ago and we see no reason why they

should be re-inserted as part of the DN sales process.

3. Agency. We fully support the introduction of an Agency licence condition. However, we do not believe that the draft Agency licence condition achieves the policy intent.
4. Comparative Regulation. We support the various licence obligations that have so far been proposed to ensure that comparative regulation following the sale is not compromised and we note that Ofgem has ongoing work in this respect. We believe that the regulatory accounts condition is particularly important in this respect, as is the proposed condition on prohibition of cross subsidies. We look forward to further drafting.

Finally, at DISG on 21 December, a number of further price control drafting modifications were tabled. We regret that at this stage we have not managed to review these revisions. We will however provide comments on them as soon as we are able to in the New Year.

Please give me a call if you would like to discuss any of the comments we have made in the attached paper in more detail.

Yours sincerely

Rob McDonald  
Director of Regulation