

**COMMENTS ON SPECIFIC ISSUES RAISED AND ISSUES ASSOCIATED WITH PROPOSED NEW LICENCE CONDITIONS.**

1. LNG and storage. We support Ofgem’s proposals to place all existing licence obligations relating to LNG Storage in Transco’s NTS-GT licence as a Special Condition. However, where references to LNG have been removed from definitions of “transportation business” or “transportation arrangements” we do not believe that it is appropriate to insert references to offshore gas storage installations, storage cavities in natural strata and containers for the storage of gas in a liquid state. That is we do not believe that it is appropriate in this instance to revert to the reference to storage facilities contained in the standard conditions. To the extent that these facilities are excluded from the existing amended standard and special licence conditions, we believe that it is appropriate to exclude them from any proposed standard special licence conditions. We believe that their reintroduction goes beyond the remit of DN sales and in effect, extends the scope of regulation to include storage facilities that have previously been removed from the Transco licensed transportation activities. We therefore believe that in each instance where references to these storage facilities have been inserted, they should be removed.
2. Metering. We continue to be extremely concerned that the IDNs will be required to provide a metering obligation of last resort where, unlike the retained DNs, it has no regulated metering business with which to fulfil the obligation. We recognise that the IDN would be able to procure the services required to fulfil the obligation (initially from Transco). Nevertheless the introduction of metering competition leaves the IDN with considerable uncertainty as to the volume of metering business for which it will have to make arrangements. Furthermore, it raises significant issues in respect of stranded assets since IDNs could be required to install a meter on day one only to lose that metering customer on day two, leaving the asset stranded. The RDNs will be able to fulfil their metering obligation of last resort by the use of Transco’s retained, established metering business the activities of which have been “funded” by previous price controls. In our view, this places the RDNs at a significant disadvantage.

We also note that the Transco metering business will continue to provide metering services to existing meters within the IDNs. That is, they will continue to have a significant metering presence in each of the IDN areas and therefore, we see no reason why Transco’s regulated metering business should not be required to continue this provision for new meters following the sale of the DNs.

Finally, we are very concerned that insufficient consideration has been given to the impact the proposed arrangements will have on the RGMA processes. For example, the changes that will have to be made to the RGMA baseline and associated metering systems to recognise IDNs where they are required to be the Gas Act owner. At present, the RGMA baseline and all associated electronic flows assume that the MAM is Transco where the GT is the Gas Act owner. It is currently unclear what the impact of the metering obligation being applied to

IDNs will be however, we believe that there is a risk that the changes to these systems and processes could represent a significant tranche of work, the scope and cost of which has not been assessed. Indeed, we believe that this element of cost has been overlooked in the final impact assessment, particularly since it is anticipated that the obligation will be removed in due course to reflect the competitive metering market.

In other words, we believe that there are a number of issues that should be given greater consideration before a metering obligation of last resort is imposed on the IDNs.

3. NTS/DN Business separation. Ofgem has proposed a suite of special licence conditions that would apply to the NTS and RDN licensees to achieve the necessary separation to ensure that the absence of legal separation does not compromise future comparative regulation. These measures are also proposed to ensure that the NTS does not discriminate in favour of its RDNs. We support this approach and have commented on the proposed licence drafting accordingly.
4. Offtake arrangements. We also understand that in the event that the proposed exemption is granted, there is a requirement to revisit many of the conditions to ensure that nothing in the licence could restrict, distort or prevent the activities of the relevant GTs in respect of the proposed offtake arrangements. That is, to ensure that the NTS/DN interface implied by the implementation of an Option 2A approach is fully reflected; and to ensure that there is clarity regarding shipper and GT obligations.

To that end, we agree that it will be necessary to adapt the price control conditions to reflect the fact that DN will be passing through NTS charges to shippers and Ofgem's proposal to introduce an incentive regime in relation to the NTS/DN interface.

5. SOMSA. We note that Ofgem continues to consider that it is not appropriate to regulate the SOMSA and the other new service agreements. We support Ofgem's view that in the event that these contracts become enduring arrangements Ofgem will reconsider this issue and, if appropriate, regulate these agreements. We note that in light of the decision not to regulate these contracts, Ofgem proposes to adjust the RDN de-minimis cap. We believe that a similar adjustment may be required for the IDNs in respect of the interim services they will be providing Transco.
6. Monopoly/Commercial Business separation. We support the introduction of business separation licence conditions equivalent to those used in the electricity distribution licence. We also agree with the approach that Ofgem is proposing to take where there is an IGT/DN relationship.
7. Dead-band. We support the proposal to introduce a dead-band within which a standard interest rate would apply. Not only would this be in line with NGC's electricity transmission licence, it would also reflect the electricity distribution network arrangements. We suggest therefore that a 2% dead-band would be

appropriate to apply to both the DNs and the NTS.

8. Pipeline System Security Standards. We are unsure why Ofgem believes that the pipeline system security standards licence obligation may need to be changed to reflect the introduction of the proposed flexibility product. The proposed introduction of flex is a tool that is available to the DNs, it does not change the obligation. We see no reason why the obligation should change and any proposal in this respect would, we believe, have HSE implications and is outside the remit of the DN sales.
9. Governance of technical standards. We understand the tension associated with this issue and the desire for “uniformity” without compromising the potential for innovation. However, we cannot envisage how any form of drafting will be able to meet these conflicting aims. We therefore continue to believe that it is appropriate for these standards to be implemented through industry codes of practice. As we have previously mentioned, this would not preclude regulatory oversight since Ofgem would have step in rights through the licensees’ obligations not to restrict, distort or prevent competition (including competition in connections) and through the Competition Act powers. Furthermore, this approach would not preclude introducing specific licence obligations at a future date if so required.
10. Arrangements for gas measurement. We support the approach that would formalise arrangements for testing measuring equipment within the UNC rather than via the licensing route.

## COMMENTS ON DRAFT STANDARD SPECIAL LICENCE CONDITIONS SET OUT IN APPENDIX 7B

### PART A – Standard Special Conditions that apply to all NTS and DN Licensees.

#### Standard Special Condition A1. Application/Disapplication of ...applicable to both NTS and DN Licensees

As we have indicated in previous responses, we support the introduction of the “switch on/off” standard special licence conditions. We also support the drafting of this condition to the extent that it does not incorporate explicit links between the switching off and on of standard and standard special licence conditions.

However, we are unsure that the proposed drafting achieves the intent in respect of the activation of standard special licence conditions. As drafted, we understand that only paragraph 1 would be active in the licence initially and that in order to turn on other standard specials or turn off standard licence conditions a direction under paragraph 2 would have to be issued. However, paragraph 2 can only be activated by the direction it provides for. We therefore are not sure how this mechanism will work.

We are also concerned that paragraph 2 only requires the consent of the licensee for the Authority to *issue* a direction – we believe the licensee should also consent to the **content** of the direction.

We believe that the word “that” should be deleted from the end of the second sentence of paragraph 2 and in each of paragraphs (a) (b) (c) and (d) the word “that” should be inserted after the words in brackets.

We believe that it should be clear that under 4(a) the words “vary the terms” does not suggest that the terms of a special standard licence condition could be varied.

#### Standard Special Condition A2. Private Collective Licence Modification Procedure ...applicable to both NTS and DN Licensees

We support the proposed private collective modification process and agree that it should replicate the statutory process in terms of voting thresholds.

We believe that further clarity maybe required in respect of the interactions between A1 and this condition. That is, whether a new standard special licence condition would be introduced and “activated” by the private CLM process or whether the activation of that new condition would only be achieved by the issuing of a “direction” under A1.

“weighting according to market share” we question whether the word “all” needs to be inserted so that the total quantity of gas transported by those relevant license holders is divided by the total quantity of gas transported by *all* relevant licence holders.

#### Standard Special Condition A3 Definitions and Interpretation

We note that Ofgem intends to review this section at a later date and therefore, we intend to comment more fully on this condition at that time. However, we do note

that there are some definitions that are provided for within individual Standard Special Conditions that have not been replicated here while others have. Furthermore, it is clear that there are many definitions being used for “transportation business” throughout the various conditions which is somewhat confusing as to which definition applies and when. “Transportation Arrangements” must ensure that it provides for GT to GT arrangements that have been proposed under option 2A of the exit arrangements. We also believe that references to standard special and special conditions used in paragraphs 12(a)(ii) and 13(b) need to be checked for accuracy.

#### Standard Special Condition A4 Charging Gas Shippers - General

We note that Ofgem is as yet undecided as to whether changes to charges should be restricted to once or twice a year and whether these restrictions should be consistent for the NTS and DNs. To the extent that there is to be a limitation, we believe that twice a year would be appropriate. However, irrespective of whether it is once or twice a year, in the event that a restriction on the frequency of change is implemented we support the introduction of an interest rate dead-band.

We believe that it is necessary to ensure that the obligation to comply with the Joint Office Arrangements for the administration of any charging proposals does not restrict or prevent the licensee from making changes to its charges. It should purely deal with the administration of the process. Therefore, we believe the drafting of paragraph 2.b) should be amended so that it starts with “without prejudice to the licensee’s obligations in respect of revenue recovery,”.

In accordance with our general comment 1. above, we do not believe that “transportation arrangements” should include “storage arrangements which relate to the utilisation of (a) an offshore gas storage installation; (b) storage cavities in natural strata, or (c) containers for the storage of gas in a liquid state”.

#### Standard Special Condition A5 Obligations as Regard Charging Methodology

We believe that in circumstances where the licensee has more than one DN the obligations associated with this condition should be in respect of each DN.

Paragraph 2A(b). We do not believe that it is appropriate to introduce an obligation that requires the licensee to keep the charging methodology under review at all times. We note that the equivalent electricity distribution licence obligation that was introduced in July this year requires the licensee to review its charging methodology at least once a year. We therefore believe that it would be more appropriate to replicate this annual requirement in gas.

Paragraph 2A (c.). We believe that it is necessary to ensure that the obligation to comply with the Joint Office Arrangements for the administration of any changes to the charging methodology does not restrict or prevent the licensee from making changes to its methodology. It should purely deal with the administration of the process. Therefore, we believe the drafting of paragraph 2.b) should be amended so that it starts with “without prejudice to the licensee’s wider obligations,”.

Paragraph 11. In accordance with our general comment 1. above, we do not believe that “transportation business” should include “activities connected with the storage of gas in pursuance of storage arrangements which relate to the utilisation of (a) an

offshore gas storage installation; (b) storage cavities in natural strata; or (c.) containers for the storage of gas in a liquid state”.

#### Standard Special Condition A6 Conduct of Transportation Business

Paragraph 2. In accordance with our general comment 1. above, we do not believe that “transportation business” should include “storage arrangements which relate to the utilisation of (a) an offshore gas storage installation; (b) storage cavities in natural strata; or (c.) containers for the storage of gas in a liquid state”.

We support the proposal to “augment” this condition with NTS Special Condition 18 to prevent the NTS from conferring unfair commercial advantages on its RDNs.

We agree with Ofgem that the provisions in this condition are sufficient to address any concerns where the NTS or DN-GTs are associated in any way with an IGT business.

#### Standard Special Condition A7 Requirement to Enter into Transportation Arrangements in Conformity with Network Code.

Paragraph 2. In accordance with our general comment 1. above, we do not believe that “transportation arrangements” should include “storage arrangements which relate to the utilisation of (a) an offshore gas storage installation; (b) storage cavities in natural strata, or (c) containers for the storage of gas in a liquid state”. We therefore believe that paragraphs 2 and 3 should be deleted.

#### Standard Special Condition A8 Emergency Services and Enquiry Service Obligations

Paragraph 4: given the proposed offtake arrangements we suggest that this paragraph could include a reference to other licensees or DN owners.

#### Standard Special Condition A10 Provision and Return of Meters

As discussed above, we disagree with Ofgem’s conclusion that a metering obligation of last resort should apply equally to all DNs. We believe that the condition would impose significant issues in respect of stranded assets for the new DN owners the extent of which would not apply to the RDNs. We therefore do not believe that it is appropriate for this condition to be a standard special condition that applies equally to NGT’s licensed businesses as well as the RDNs

We recognise that it may be difficult to draft a licence condition that places a requirement on NGT and not IDNs in this respect, however, we do believe that it would be possible to place the obligation on Transco plc to provide a metering obligation of last resort irrespective of whether they are the owner of the DN.

#### Standard Special Condition 11 Network Code

Paragraph 2. We are unsure what this means

Paragraph 18. In accordance with our general comment 1. above, we do not believe that “transportation arrangements” should include “storage arrangements which relate to the utilisation of (a) an offshore gas storage installation; (b) storage cavities in natural strata, or (c) containers for the storage of gas in a liquid state”.

We are aware that Ofgem is still considering how best to accommodate the operator to operator arrangements to the extent that they are outwith the commercial offtake code

arrangements that are destined to reside within the UNC. We believe that the present intent is for them to be provided for within the UNC but that the specific arrangements will be set out in separate agreements that are ancillary to the UNC. While we would support an approach that provided for a separate offtake agreement, we agree with Ofgem's view that whatever the outcome, unaffected parties would not be able to raise any modifications to these documents. We shall, however, comment more fully on these arrangements once Ofgem's decision in this respect is known.

Standard Special Condition A12 Joint Office Governance Arrangements

Paragraph 1(a)(ii). We believe that the Joint Office Governance Arrangements should purely relate to the administration process that is associated with the modification of gas transportation charges, reserve prices or charging methodologies. Please see our comments on Standard Special Licence conditions A4 and A5 above.

Paragraph 1(a)(iii). To the extent that the purpose of the common systems arrangement is, at this time unclear in particular how it relates to the Agency arrangements and associated agreements, we are unsure whether it is appropriate that the JO is involved in the administration of that arrangements.

Paragraph 1.(d). Initial capitals are required for "Joint Governance Arrangements".

Standard Special Condition A14. Common Systems Obligation

We do not understand the interaction of this obligation with that associated with the proposed Agency arrangements which also seems to provide for "agreed common systems and procedures".

Paragraph 1. (b) (ii). We are unsure whether it will be possible to comply with the activity based costing requirements associated with this paragraph within the timescales. We understood that activity based costing was something that was to be considered at the next price control review.

Standard Special Condition A15. Agency

We agree with the inclusion of a specific Agency licence condition and with the intent of the obligation. However, we have concerns that as drafted, the licence condition does not achieve that end. At present, the obligation does not compel the licensee to enter into the Agency agreement nor does it specify what those Agency services should be.

We therefore believe that this condition should be drafted along similar lines to Standard Special Condition A14. That is, the licence obligation should require the relevant gas transporters to establish and be a party to the Agency and the scope of that Agency would be set out in the Agency Services Agreement which could not be modified without Ofgem's consent.

We believe that "relevant gas transporter" needs to be defined in this condition.

Standard Special Condition A16. Independence of the independent market for balancing.

Paragraphs 1 (a) and (b). We believe that the proposed drafting is incorrect on the grounds that we understand that the "balancing gas transporter" will be balancing the

GB gas pipeline system and **not** just the pipeline system of the balancing gas transporter.

Standard Special Condition A17. General obligations in respect of gas transporters' pipe-line systems.

We welcome the removal of references to planning, development and maintenance from this condition.

However, as expressed in our response to the initial drafting of this condition, we have concerns with the proposed drafting of paragraph one. It is not clear what is meant by this paragraph or how a network owner would be able to ensure that it complies with the obligation. That is the proposed wording is, in our view, too broad since there is potential for anything a network owner does to “affect” another pipe-line system and it is unclear which activities would be unacceptable and what action would be required. We therefore believe that to reflect what we believe is the intent of this obligation, the word “affect” should be replaced by the word “compromise”.

We continue to question why paragraph 3 is required given the proposed commercial arrangements and associated incentive schemes for the booking and allocation of NTS exit capacity.

Standard Special Condition A25. Record of and Report on Performance

We believe that these reporting obligation should apply separately to each of the RDNs owned by the licensee for comparative regulatory performance purposes. Therefore, this condition should either be amended to reflect this or, alternatively “augmented” by a special condition that would apply only to the RDNs.

Standard Special Condition A26. Provision of Information to the Authority.

We see no reference to “transportation business” in the proposed condition and therefore question why it is a defined term. Nevertheless, in accordance with our general comment 1. above, we do not believe that “transportation business” should include “storage arrangements which relate to the utilisation of (a) an offshore gas storage installation; (b) storage cavities in natural strata; or (c) containers for the storage of gas in a liquid state”.

Standard Special Condition A27. Disposal of Assets

We are concerned that throughout this condition references to “storage” have been inserted where references to “LNG storage” have been removed. On the grounds that the original drafting did not say “LNG storage and other storage assets” this is not appropriate. Therefore references to “storage asset” in paragraphs 2, 3, 4, and the associated definition should all be removed.

Standard Special Condition A30. Regulatory Accounts.

We agree that it would be appropriate to bring the Regulatory Accounts requirements into line with the equivalent electricity distribution requirements that are currently being consulted on ie the removal of the current costs requirements, removal of an interim profit and loss account and changing the audit requirements to “fairly represents”. As such, we await revised drafting of this condition.



The drafting of this condition is more relevant to Transco in that it has an established regulated meter and meter reading business. The extent to which an IDN will establish a metering and meter reading business is questionable. We therefore believe that it would be appropriate for the Authority to have the power to derogate the regulatory accounting requirements in respect of the activities listed in b) and c). To this end, we believe that paragraph 1 should begin “Unless the Authority otherwise consents ...”.

Notwithstanding the above and our earlier comments on metering, we believe that where this condition relates to the Metering Business and Meter Reading Business the obligation should not require the IDNs to do any more than to include these activities in separate columns within the Accounts for the main business. That is, we do not believe that IDNs should be required to produce stand-alone regulatory accounts for these activities.

We agree with Ofgem that this condition must make sure that separate regulatory accounts are prepared in respect of each of NGT’s four RDNs. We await further drafting in this respect.

We agree with Ofgem that the RDNs should be subject to more stringent reporting requirements than the IDNs to capture the intra-company dealings. We believe that this is particularly important to ensure that comparative regulation is not compromised by NGT not being required to legally separate its NTS and DN businesses. We therefore believe that this condition should be “augmented” by special conditions that would apply to both the NTS and the RDNs. We also believe that it will be important to ensure that costs are appropriately allocated and reported between RDNs to ensure that comparative regulation is not compromised.

#### Standard Special Condition A32. Definition of Permitted Purpose

Paragraph 1. We note that the reference to “this Section of the standard conditions” needs to be amended. We also understand that Ofgem intends to make further alterations to this proposed drafting to clarify distinctions between NTS and RDN transportation businesses.

#### Standard Special Condition A33. Restriction on Use of Certain Information and Independence of the Transportation Business.

We support the replication of equivalent business separation requirements used in the electricity distribution licences. We believe that these conditions are sufficiently robust.

The words “an electricity or gas supply licence or” should be deleted from the definition of “relevant shipper”.

We do not understand the difference between Metering-Related Services Business and the Metering Business other than the latter is included in the definition of “transportation business”.

We agree with Ofgem’s view that it will be necessary to ensure that this condition is compatible with the proposed exemption order.

Paragraph 9. We note that as proposed, the approved statement would be placed on its company’s website within 5 working days. The equivalent in electricity is 15 days and we suggest therefore that this condition is aligned with the 15 day electricity requirement.

Standard Special Condition A35. Prohibition of Cross-Subsidies

We believe that a definition of “transportation business” is required and that this definition should relate to the transportation business of each separate DN where a licensee owns more than one.

Standard Special Condition A36. Restriction on Activity and Financial Ring Fencing

Again, we understand that Ofgem intends to revisit this condition to ensure that there is appropriate separation between NTS and RDN activities.

Paragraph 4 (b) (i) and (ii). We note that these paragraphs reference “most recent audited accounting statements produced under paragraphs...” However, we question how this will work for the newly created licensees who will not of course have such accounts.

Standard Special Condition A43. Provision of Metering and Meter Reading Services

As per our comment on metering above.

Standard Special Condition A46. Non-discrimination in the provision of metering activities.

As per our comment on metering above.

Standard Special Condition A47. Charging of Gas Shippers – Domestic Infill Premises.

Paragraph 1. The word “amended” should be removed from the first line.

**PART B – Standard Special Conditions applicable to all NTS Licensees**

Standard Special Condition B1 Application/Disapplication of standard conditions..... applicable to NTS licensees.

Paragraph one, we believe the reference to “A1” should be to “B1”.

Please see comments above on Standard Special Licence Condition A1.

Standard Special Condition B2. Private Collective Licence Modification Procedure in respect of Standard Special Conditions applicable to NTS licensees.

Please see comments above on Standard Special Licence Condition A1.

**PART C – Special Conditions applicable to the Licensee (NTS)**

Special Condition C1. Amendments to Standard Conditions and Standard Special Conditions applicable to the licensee relating to LNG.

As indicated, we support the approach taken that will apply the existing licence obligations in respect of the LNG storage facilities to the NTS licence obligations.

We note that Ofgem believes that there is more work to be done on this condition and we therefore look forward to commenting on a re-draft at a later date.

#### Special Condition C4. Prohibited Procurement Activities

We welcome the revised approach to the treatment of existing special licence condition 26. That is the inclusion of a “self contained” special condition that applies to the NTS and a standard special condition that applies to the DNs.

A check will need to be made to ensure that in the event that the proposed commercial flexibility product is introduced, this condition allows for it. For example, we are unsure that the flex product is currently accounted for since it is not a capacity product for constraint management purposes, nor is it a balancing management “tool”.

#### Special Condition C6. Independent Market for Balancing.

Paragraph 1. As per our comments on Standard Special Condition A16, we believe that in inserted paragraph 4A(b) the reference to “its pipe-line system” is incorrect since provision for balancing applies to the whole of the GB system and not just the NTS system as implied by the existing words.

Special Conditions C8A – C16 – we have not commented on these conditions in this response as they are subject to the formal S23 notice. However, we do note that a considerable amount of modifications will be required to reflect the final offtake arrangements and associated incentive schemes.

#### Special Condition C18 Conduct of the Transportation Business in respect of the NTS

We support the introduction of this special condition to “augment” the provisions of Standard Special Condition A6.

#### Special Condition C19. Undertaking from ultimate controller concerning non-discrimination between the NTS

We support the inclusion of this new special condition. We look forward to further discussions on the arrangements that will be put in place to ensure appropriate business separation of the NTS from Transco’s RDNs.

### **PART D – Standard Special Conditions applicable to all DN licensees**

#### Standard Special Condition D1 Application/Disapplication of standard conditions..... applicable to DN licensees.

Paragraph one, we believe the reference to “A1” should be to “D1”.  
Please see comments above on Standard Special Licence Condition A1.

#### Standard Special Condition D2. Private Collective Licence Modification Procedure in respect of Standard Special Conditions applicable to NTS licensees.

Please see comments above on Standard Special Licence Condition A1.

#### Standard Special Condition D3. Long Term Development Statement.

In accordance with our general comment 1. above, we do not believe that “transportation arrangements” should include “storage arrangements which relate to the utilisation of (a) an offshore gas storage installation; (b) storage cavities in natural strata; or (c) containers for the storage of gas in a liquid state”.

#### Standard Special Condition D4. Prohibited Procurement Activities

We do not believe that this condition is compatible with the proposed reform of exit arrangements. We are concerned that as drafted, this condition will restrict a DN from participating in the acquisition/sale of the proposed commercial flexibility product since it is not a capacity right. We are also concerned that it does not allow for a DN to sell NTS exit capacity to ensure the most efficient management of its exit capacity profile as envisaged by the proposed arrangements. Indeed, we would question whether it would be possible for a secondary capacity market to develop if a DN cannot trade their capacity purchases. Therefore, it is essential to ensure that this condition is compatible with the final offtake arrangements.

Paragraph 2. (b) makes reference to “Transportation System” which relates to the whole GB system. We question whether it is more appropriate to refer to the licensee’s pipe-line system (or each of its pipe-line systems) in this instance since a DNs will not be managing constraints or shrinkage for systems other than its own.

#### Standard Special Condition D5. Licensee’s procurement and use of system management services.

We believe that this condition is unnecessarily onerous for DN purposes. The original condition was primarily associated with the NTS activities and we therefore do not believe that it is necessary to apply such rigorous auditing and reporting requirements to the DNs.

#### Standard Special Condition D6. Provision of First Call Emergency Response to the Operator of the NTS

We have commented before about the approach to this activity but recognise from the various debates at the DISG why this condition is deemed necessary. Nevertheless, we are very disappointed in the re-draft of this condition and cannot understand why, in the last couple of weeks NGT and Ofgem have reversed their view of where the money for the provision of NTS first line emergency response has been allocated. It was made quite clear in the paper presented to DISG that it was in the NTS price control and this was also our own understanding. Therefore, it was appropriate that the provisional drafting of this condition allowed the DNs to recover such costs, especially since going forward the costs of providing this service could escalate far beyond those experienced last year (since to a great extent they are event driven).

Paragraph 3. We note that the drafting continues to mean that if requested by the NTS to do so, the DN must carry out work or exercise control over the NTS. We do not believe that this is appropriate and could have potential safety and cost implications. We therefore believe that this paragraph must reference a DN’s agreement to such a request. It may be necessary to add that such agreement would not be unreasonably withheld.

We also believe that it is necessary to reinstate the provision for the NTS to provide appropriate indemnities to the DN against third party claims. This was provided for in paragraph 4 of the original draft that has now been omitted.

Paragraph 4 should also ensure that nothing in this condition would require additional training of DN staff.

Standard Special Condition D8 Reform of Distribution Network interruption arrangements

We are concerned that this places an obligation on the DNs to develop proposals for reform of these arrangements where, quite clearly, it would only be appropriate to do so once a full analysis and impact assessment has been carried out to justify such a reform. Indeed, Ofgem has repeatedly stated that reform of the DN exit arrangements will be subject to a separate regulatory impact assessment following the DN sales process. We therefore believe that as drafted, the proposed condition maybe inconsistent with this stated approach. At the very least, we do not believe that it should be a licence condition.

Standard Special Condition D9. Distribution Network transportation activity incentive scheme and performance reporting.

We welcome Ofgem's decision not to introduce a financial aspect to this licence condition before the next price control review.

The title should reflect that it is a Standard Special Condition.

Paragraphs 1. We believe the words "each of" should be inserted before the words "the licensees Distribution Network;".

Although we would be happy to carry out a customer survey as NGT does now, we do not believe that it is necessary at this stage to incorporate it as a licence obligation. This licence condition is likely to be key at the next price control review in respect of introducing relevant incentives and we therefore believe that it would be better to consider the appropriateness of a licence obligation at that time. However, as drafted, we question whether it is more appropriate to mirror the approach that has been taken to the equivalent customer satisfaction survey in electricity distribution where Ofgem (or Ofgem's appointed agent) carries out the survey. We believe that this approach would be more efficient than each licensee appointing an approved independent third party to carry out the survey. Furthermore, it would ensure a consistent approach is adopted across all of the distribution networks.

Standard Special Condition D10. Provision of connections information.

Our comments to this proposed condition are set out in a separately to this response, please see Annex 1 attached.

**PART E – Special Conditions applicable to the DN licensee.**

Special Condition E1. Amendments to Standard Conditions and Standard Special Conditions applicable to the licensee.

We note that for NGT's DN businesses, Ofgem has proposed a divergence from Standard Special Condition E1 in respect of de-minimis business to take account of the provision of services to other gas transporters (ie the IDNs that have been sold.) We believe that it may also be necessary for an equivalent Special Condition to be introduced for the IDNs since they will also be offering services to NGT's RDNs.

end

**Comments on Gas Connections paper**  
Points in relation to Draft Licence Condition (Overall Standards)

Application of Standards Provisions to non-Transco DNs

We have previously expressed concern about the development of an onerous standards regime, developed to address continuing problems with Transco's provision of services, which would then be applied to new DN owners. We have issues in this area with the developing proposals on guaranteed standards. However, in relation to the draft licence condition on overall standards, our main concerns in this context relate to the proposed audit requirements and the proposed accuracy challenge scheme. These are discussed in turn below.

**Audit Requirements**

Whilst Ofgem may require audited information from Transco "not less than four times in any twelve month period" due to continuing concerns about Transco's provision of services, it is a disproportionately onerous requirement to place on new DN owners. A more reasonable approach, in our view, would be for the licensee to be required to undertake an audit of its systems once in a year, with an ability for the Authority to specify further measures (which it can do separately for Transco at the outset) if problems are indicated. Further measures could include a more frequent audit and for audit results to be provided to the Authority. We do not support the routine provision of audit information to Ofgem as suggested in the definition of "specified connection information".

**Scheme for Accuracy of Quotations**

This is an area of Transco's performance that has been addressed in the enforcement order placed on Transco in 1999. Again we feel it is not proportionate regulation for Ofgem to require such a scheme for new DN owners, whose accuracy of quotations has not been demonstrated to be inadequate. We do not consider that formal mechanisms, which would go beyond a customer's right to request that a quotation is reviewed or discussed if it is unsatisfactory, are necessary at the outset. We would not object to the Authority being able to direct that such a scheme is put in place (as it could be for Transco) if problems are identified and subject to provision for consultation with and representation by the licensee.

Scope of standards

We support a framework where reasonable connection standards apply for the smaller customers of gas transporters. The analogous standards for electricity connections cover low voltage connections only and we welcome the signalled intent for the standards to "be limited to domestic and small commercial connections".

We therefore consider that there should be an overall exclusion from the proposed overall standards for premises supplied above the low pressure tier. Furthermore, we are not convinced that the breakpoint of 275kWh per hour, which appears for some of the standards, is appropriate. It appears to reflect a standard metering size of 25cubic metres per hour (using a calorific value of 10.7kWh/cubic metre) whereas, in our view, the smaller sized meter of 16 cubic metres per hour captures small commercial premises. Using this logic, a reasonable equivalent to the "low voltage" breakpoint for

the standards applying in electricity connections should be that the gas connection is at low pressure and with a flow rate less than 170kWh per hour. Above this threshold, we consider that customers are protected by the existence of competition.

### Proposed Targets

As discussed above, we do not consider that the standards set out in paragraphs 2(b)(ii) (applying above the domestic / small commercial breakpoint) or 2(c) (accuracy challenge scheme) are appropriate for application to all DN's. We believe that appropriate targets are:

- standard quotations should be issued within ten working days of receipt of all the necessary information;
- non-standard quotations for connections up to 170kWh per hour are issued within fifteen working days of receipt of all the necessary information;
- a response to a land enquiry should be issued within fifteen working days of receipt of all the necessary information;
- connections should be substantially completed within the timescales agreed with the customer.

We do not support the proposal that requests for the purposes of the condition are only treated as received on the following working day if they are received after 5pm. This gives no working time to deal with the request on that particular day and the trigger time should, in our view, be much earlier in the day; for example, around mid-day.

### Definition of Land Enquiry

These enquiries are made in order to establish the approximate scale of costs for providing gas to a potential or existing premises or development. As such, it is not appropriate for the same standards of accuracy to apply. We propose that the definition is amended to reflect more closely what we believe customers require, such that it reads as follows:

**“land enquiry”** means an indication of the availability of gas, of the likely pressure tier that will be available and of the likely range of the cost of connection.

In our view, the approval of designs is a separate matter and should not be included in this definition.

### Other Definitions

In the definition of “specified connection information”, paragraph (c) is not necessary in our view, and paragraph (e) should only be required in the limited circumstances discussed above. We also note that the definition of “developments” to mean 6 or more premises is inconsistent with the approach in electricity where 5 or more premises represents a “development” outwith the scope of standards.