

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

Head Office
Inveralmond House
200 Dunkeld Road
Perth
PH1 3AQ

Telephone: 01738 456400

Facsimile: 01738 456415

email:

Our Reference:

Your Reference:

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Dear Sonia

**National Grid Transco – Potential Sale of Gas Distribution Networks
Licensing: Next Steps
Formal consultation under Section 23 and informal consultation under Section 8AA
of the Gas Act 1986. November 2004.**

Thank you for the opportunity to respond to the above consultation document.

At this stage, our comments relate solely to the formal consultation under Section 23 of the Gas Act. We will forward our comments on the informal consultation under Section 8AA of the Gas Act in the next few days.

We believe that in the main the modifications set out in the formal Notice raise no particular issues.

However, it would be helpful to see an audit trail of total allowed revenues for each DN between the figures indicated in the June 2003 final price control separation final proposals and those in the current licence and the proposed new licence. As part of that, it would be particularly useful to understand the derivation of actual numbers that are to be inserted in respect of the terms DNZt-1 for the formula year commencing on 1 April 2004 for each separate DN.

We note that the RDN price control condition is such that Ofgem will separately allocate a licence fee to each of the RDNs. This is a direct copy of the existing words however, we are aware that currently a single calculation is made in respect of Transco's combined DN licence fees. Therefore, we assume that in future, these separate calculations will be provided for in an updated version of the "Licence fee cost recovery principles" document and the relevant DN-specific amounts shown in the associated Allocation of Licence Fees to Licence Holders documentation circulated to relevant parties twice annually.

Finally, we note that a number of further changes will be required to these licence conditions to take into account, in particular, the proposed offtake arrangements and incentive schemes. We look forward to commenting on these additional modification proposals at that time.

We hope that you will find the attached comments useful. If you would like to discuss any of the points we have made, please do not hesitate to contact me.

Yours sincerely

Rob McDonald
Director of Regulation