

## DN SALES ISSUES LOG

Date: 26 July 2004

Version: 2.0

No	Question	Priority	Group	Latest action	Action owner	Due date	Ofgem's current view	Key risks
1	What functions should the agent undertake?	H	SPAWG DISG	Authority decision of functions of the agent published in May 2004.				
2	What funding arrangements should be in place for the agent?	M	DISG	Ofgem presented proposed conclusions on agency ownership and governance to DISG 14.	NGT		Funding will be considered at next price control review. Until then, agent to be jointly funded by NGT/IDNs.	
3	What ownership arrangements should be in place for the agent?	M	DISG	NGT to test proposals to different sale scenarios and report back on findings at DISG 16.	NGT	30704	Ownership will be considered at next price control review. Until then, agent to be jointly owned by NGT/IDNs.	
4	What governance arrangements should be in place for the agent?	M	DISG	NGT to test proposals to different sale scenarios and report back on findings at DISG 16.	NGT	30704		Potential for deterioration in quality of SPA services if DNs are responsible for data management - critical impact on supply competition.
5	How should the governance arrangements for the agent interact with the SPAA?	M	SPAWG	SPAWG to report to DISG 16 on SPA considerations for DN sales.	SPAWG	170804		
5A	Are there any shipper interface issues that will not be covered by the agency? If so, how will they be addressed?	M	SPAWG DISG	SPAWG to report to DISG 16 on non-codified services.	SPAWG	170804		
5B	What arrangements should be adopted in relation to services that NGT provides on an informal basis?	M	SPAWG DISG	SPAWG to report to DISG 16 on non-codified services.	SPAWG	170804		
6	What separation requirements should apply between Transco and RDNs?	H	DISG	Ofgem decision on Offtake Arrangements RIA and interruptions RIA due w/c 9 August. Ofgem to report to due DISG 16.	Ofgem	170804		

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7	Is any other action required to ensure non-discrimination between RDNs/IDNs?	M	DISG	Offtake arrangements RIA looks at implementing non-discriminatory commercial arrangements. Issue to be consulted upon in Ofgem informal licence consultation document.	Ofgem	Early Sep		
8	What arrangements need to be put in place in respect of the provision of metering services and ownership of metering assets?	L	DISG	Issue to be considered in Ofgem informal licence consultation document.	Ofgem	Early Sep	Issues likely to arise regarding LC 8 (obligation to provide a meter) and HSE requirements on who can undertake metering work. Novation issue to be addressed through RGMA project.	
8A	Do any issues arise in relation to bailment (ie, where an asset is installed in the property of another person)?	L	DISG	Issue to be considered in Ofgem informal licence consultation document.	Ofgem	Early Sep		
9	Does a DN sale give rise to any issues with respect of competition in connections?	L	DISG	IGTs have raised a concern with Ofgem. Issue to be considered in Ofgem informal licence consultation document.	Ofgem	Early Sep	Ofgem to consult on a new licence condition that extends February 1999 Order obligations to all DNs. Action may be required to ensure that DN purchasers continue Transco's existing pro-competition initiatives.	
10	Is any action required to ensure that current liabilities and standards of performance are passed on to DNs?	M	DISG	Ofgem paper on standards of performance due DISG 16.	Ofgem	170804	Changes required so that standards of performance obligations and regulatory info requirements transfer across to DNs in the same form.	
11	How should independent gas transporters (IGTs) be accommodated within the reforms?	M	All groups	IGT issues to be considered in Ofgem informal licence consultation document. Transco to report on emergency services issues at DISG 16.	NGT	30804	IGTs have raised issues associated with emergencies, connections, supply point administration & transportation charging.	
12	How much will it cost to implement the reform proposals - in particular, how much will it cost to update IT systems?	H	DISG	Ofgem to prepare information request for purposes of final RIA to be discussed at DISGs 15 and 16.	Ofgem	30804		

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13	Are shippers' systems interfaces able to support the reform proposals?	H	DISG	Agency user group to discuss how these changes are taken forward				
14	What provisions should be in the offtake agreement?	H	CIWG	Ofgem decision on Offtake Arrangements RIA and interruptions RIA due w/c 9 August.	Ofgem	90804		
14A	What are the implications of NGT's SOMSA proposal?	H	DISG CIWG	CIWG's position on SOMSAs agreed at DISG 14.				
15	What arrangements should be in place for managing interruption across the NTS and DN networks?	H	CIWG	Ofgem decision on this issue is set out in the R&R RIA			Both NTS and DNs contract for interruption and call interruptions on their own networks.	
16	Is it necessary to distinguish between energy balancing and network interruptions and if so how?	M	CIWG	R&R decision document indicates that it is important to distinguish between energy balancing and network interruptions. Issue considered in the context of the Cash Out review.				
17	What contractual framework should apply? Should Transco as NTS SO be able to contract directly for interruptions with DNs or with DN supply points?	H	CIWG	Issue is being considered in the context of the development of NTS exit capacity arrangements.				
18	Does the Gas Act permit Transco to contract directly with customers for interruptions?	H	CIWG	Issue is being considered in the context of the development of exit capacity & interruptions arrangements.				Is there a risk that contracts between NGT and customers could be challenged?
19	What arrangements should be in place for the pricing of exit capacity and interruptions?	M	CIWG	Ofgem decision on offtake arrangements RIA and interruptions RIA due w/c 9 August.	Ofgem	90804		

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20	How should local market power constraints be addressed in the new exit arrangements?	L	CIWG	Ofgem decision on offtake arrangements RIA and interruptions RIA due w/c 9 August.	Ofgem	90804	Interruptions RIA notes that Ofgem has powers under the Competition Act to deal with abuse of market power. Long term interruptible contracts reduce risk of abuse of market power and give customers certainty regarding their interruptible status.	
21	What effect will a sale have on pre-existing connections contracts? (NExAs, ARCAs, NTS network entry capacity agreements, interconnector agreements, storage connection agreements.)	M	CIWG DISG	Issue to be considered at DISG 16.		170804		
22	What arrangements are required in order to retain 'whole' gas balancing of the system?	M	CIWG	Ofgem decision on Roles and Responsibilities RIA resolves this issue.			Transco should retain responsibility for residual gas balancing thereby retaining NBP arrangements. Each network operator operates their own network.	
23	Will DNs need to take on a commercial energy balancing role?	M	CIWG	Ofgem decision on Roles and Responsibilities RIA resolves this issue.			Single SO gas balancing model should be retained. DNs take on responsibility for managing individual shrinkage accounts. To manage these accounts DNs will need to secure gas. Prohibition on trade for speculative reasons should be extended to the DNs.	
24	Should a linepack service for shippers be established? If so, what pricing methodology should apply?	L	CIWG	Decision document on offtake arrangements RIA due w/c 090804.	Ofgem	90804	Next steps document indicated that this was not necessary at present. However, further development could be undertaken in the future if appropriate.	
25	What charging arrangements, if any, should apply to transfers of gas and linepack between DNs and the NTS?	H	CIWG	Decision document on offtake arrangements RIA due w/c 090804.	Ofgem	90804		Risk that an absence of charging methodologies could lead to inefficient investment and operational decisions as well as discrimination between DNs.

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26	How will the NTS & DN co-ordinate investment and planning for diurnal storage?	H	CIWG	Decision document on offtake arrangements RIA due w/c 090804.	Ofgem	90804		
27	Who has title to gas within the network?	L	DISG	NGT to report to DISG 17.	NGT	310804		
28	Should shrinkage arrangements be fully unbundled at this stage?	H	CIWG	Action on NGT to provide paper on shrinkage to CIWG 14	NGT	110804		
29	What is the appropriate cost recovery mechanism for shrinkage?	H	CIWG	Action on NGT to provide paper on shrinkage to CIWG 14	NGT	110804		
30	What arrangements should be put in place to ensure that Gas Act and GSMR gas quality obligations are met?	H	CIWG RAWG	Ofgem considering issue of 10% compensation cap. Report back at CIWG 15.	Ofgem		NGT should be responsible for quality of gas entering DNs. DNs should be obliged to comply with GSMR obligations with respect to gas in their networks.	
31	Should current wet gas testing arrangements between Ofgem and NGT be formalised?	L	CIWG	Ofgem's technical directorate intends to undertake a review.			It may be necessary to formalise the arrangements for wet gas testing on the DNs.	Risk that procedures will not be upheld by new owner if not formalised.
31A	Has Transco signed agreements with DN customers that include gas quality parameters tighter than the regulatory limits?	L	CIWG	NGT to report to CIWG 14.	NGT	110804	If Transco has signed such agreements, it is important that NTS is obliged to deliver suitable gas to the DN in question.	
32	What arrangements should be in place with regard to handling emergencies and co-ordination in the case of emergencies?	H	DISG	IGTs have raised issues. NGT to prepare paper for DISG 16.	NGT	30804		
33	What other aspects of DNs' operations require arrangements to coordinate activities?	L	DISG	Ofgem to clarify whether areas of potential co-ordination are NTS-DN or DN-DN.	Jess Hunt	DISG 3	Investment co-ordination issues are NTS-DN, not DN-DN. Issue addressed by #36.	
34	Is NGT current procedure used to separate geographical NTS and LDZ boundaries appropriate in the context of a DN sale?	L	DISG	NGT to report back to CIWG 15.				Necessary to check that the geographical boundaries of the new DNs correspond to regulatory boundaries.

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35	What allocation and metering arrangements need to be in place at the NTS/DN interface?	M	CIWG	NGT to present to CIWG 13 on mechanism to ensure that meters do not over-read.	NGT	280704		
36	What mechanisms should be adopted to ensure that the NTS & DNs co-ordinate planning & investment?	H	CIWG	Decision document on offtake arrangements RIA due w/c 090804.	Ofgem	90804		Simply giving both DNs and NTS a 1 in 20 obligation could reduce accountability.
37	What is the impact of a DN sale on the NTS SO incentives and how should DN incentives be developed and in what form?	M	Ofgem CIWG	Issue will be considered in the context of the development of exit capacity & interruptions arrangements.			A DN sale is likely to give rise to a need for changes to Transco's exit capacity investment incentive. Incentives on exit may also need to be set for DNs. Consideration of appropriate incentives (on the NTS and DNs) with respect to linepack and diurnal storage also necessary.	
38	Will DN sales require a re-opening of the price controls?	M	Ofgem				Ofgem does not propose to reopen the current price controls.	
39	How will current Ofgem reviews affect future and present price controls?	L	Ofgem	Issue to be considered the context of the LDZ charging methodology review.				
40	Could a DN sale give rise to any issues that need to be addressed in respect of the DN price control separation (in particular, the roll forward of RAVs)?	M	Ofgem	Ofgem's view on the treatment of mains replacement expenditure is set out in an open letter published on Ofgem's website on 160304.				
41	How will mains replacement expenditure cap overspends/underspends be addressed?	M	Ofgem	Ofgem's view on the treatment of mains replacement expenditure is set out in an open letter published on Ofgem's website on 160304.			IDN's five year mains replacement cap will be relaxed if the HSE require the network operator to increase the level of mains replacement activity in the relevant region beyond the level of activity envisaged at the last price control review.	This questions affects the valuation of DNs and hence must be resolved before a sale occurs.

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42	What are the implications of reforms for the LDZ charging review?	L	Ofgem	Issue is being considered in the context of the LDZ charging review. Initial proposals document due early 2005.	Ofgem	Q4	The reviews of the exit and interruptions regime (within the DN sales project) and the capacity/commodity split (within the LDZ charging review) will need to be carefully coordinated by Ofgem.	
43	Will the current proposals in electricity relating to the 5 year rolling incentives have implications for in gas if a DN sale occurs? If so, is any action required?	L	Ofgem	Ofgem's view on 5 year rolling incentives is set out in an open letter published on Ofgem's website on 160304.			Consistent with electricity, Ofgem proposes to adopt 5 year rolling incentives in gas.	
44	Should Ofgem encourage the divergence of distribution charging methodologies?	M	Ofgem	Ofgem to present position to DISG 15.	Ofgem	30804	Initial charging methodologies will be uniform, Ofgem will consider proposals for divergence as and when they arise.	Multiple charging methodologies could add complexity and create barriers to competition in supply.
45	Will the 'merger tax' be adopted in respect of gas DNs?	M	Ofgem	Ofgem presented position on merger tax to DISG 14.			Ofgem intends to adopt an approach that is consistent with electricity.	
46	What cost recovery arrangements should be in place for the pension liabilities associated with the current and former staff of a DN?	M	Ofgem	Ofgem presented position on pensions to DISG 14.	Ofgem	300704	Sale arrangements should ensure that the attributable part of NGT's pension liability is transferred to IDN (or NGT can recover from IDN its share of future costs of meeting NGT's pension liability).	
47	What, if any, requirements/restrictions should Ofgem impose on potential buyers?	M	Ofgem	Ofgem to publish its views on conditions of sale as part of the final RIA.	Ofgem	Early Oct		RIA analysis creates doubt over benefits if (1) only one DN is sold or (2) a non-trade buyer purchases a DN.
48	Is Ofgem up to date with DN sale-related developments at the HSE and vice versa?	M	Ofgem	HSE observes at CIWG meetings. Ofgem met with HSE 140704.				
49	Is Ofgem up to date with DN sale-related developments at the DTI and vice versa?	M	Ofgem	DTI updated regularly.				

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50	Should Ofgem's asset risk management survey be extended in scope to include smaller independent networks?	L	Ofgem	Ofgem position paper to be presented to DISG 16.	Ofgem	170804		
51	What is the process for issuing and approving licences for the new DN businesses?	M	Ofgem RAWG	Process explained in Ofgem open letter on timetable dated 16 July 2004.				
52	How should DN licence fees be recovered?	L	Ofgem RAWG	Issue being considered in informal licence consultation document.	Ofgem	Early Sep		
53	What arrangements should apply with respect to the network code?	H	RAWG	NGT paper on UNC structures and process presented to DISG 14.				
54	What changes need to be made to the network code for it to support separate transmission and distribution roles?	M	DISG	NGT to propose methodology for UNC development to DISG 17.	Ofgem	310804		Quick 'find and replace' could lead to ongoing problems? Are separate sections for transmission/distribution
55	What should be the process for modifying the network code? Should NGT retain administrative responsibility?	M	DISG	NGT business rules on modification rules provided to DISG 14. Ofgem to provide position paper to DISG 15.	Ofgem	30804		Current governance arrangements do not take account of IDNs. Incentive problems may arise if NGT required to
56	Where should the distribution charging methodology sit with the regulatory framework?	M	DISG	Ofgem to provide position paper to DISG 15.	Ofgem	30804	Each DN should have responsibility for the policy development of its own charging methodology, however the secretariat functions associated with processing modification proposals should be carried out by a governance entity.	
56A	Do price changes need to be co-ordinated/controlled between DNs? Should there be an annual price change window?	M	DISG	Ofgem to provide position paper to DISG 15.	Ofgem	30804	Each DN should have responsibility for the policy development of its own charging methodology, however the secretariat functions associated with processing	

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57	What framework should apply with respect to licensing?	H	DISG	Ofgem gave presentation to DISG on licensing architecture at DISG 13. Informal licence consultation document due to be released in early September. Issues to be discussed at DISG 16.	Ofgem	170804	Separate transmission and distribution licences are desirable, however this requires primary or secondary legislation. Separating the distribution and transmission activities into an amended GT licence is most pragmatic approach.	
58	Which of Transco's current licence conditions need to apply to DNs, which need to apply to Transco and which should apply to both?	M	Ofgem	Informal licence consultation document on licences due to be released in early September. Issues to be discussed at DISG 16.	Ofgem	170804		
59	What, if any, new licence conditions should be introduced?	M	Ofgem	Informal licence consultation document due to be released in early September. Issues to be discussed at DISG 16.	Ofgem	170804	Potential issues include: non-discrimination conditions and/or obligations on DNs to co-ordinate in emergencies.	
59A	Will the NTS and DNs have appropriate statutory rights and obligations under the new structure?	M	Ofgem					
59B	Are changes needed to shipper or supplier licences?	M	SPAWGD ISG	Ofgem to consult on Direction regarding Gas Suppliers SLC21 (obligation to publish transporter details).			Obligation could be discharged by publishing a phone number whereby customers can find out their transporter's details. (Xoserve to manage service.)	
61	What authorised areas should be attached to the licences of DNs and Transco?	M	RAWG	NGT has applied for 8 licences which specify the DN area as the authorised area. Ofgem decision on whether to grant licences due October 2004.	Ofgem	Mid Oct		NGT's statutory duties could be affected.
62	What action is required to ensure that Transco's rights of entry for the purposes of site isolation are available to the DNS?	H	DISG	NGT to provide further information.	NGT	30804		Is this right conferred by the Gas Act?
62A	How will the arrangements for site isolation operate in practice?	M	DISG	NGT to provide proposals for detailed UNC development.	NGT			This is a Network Code issue associated with disconnections.

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63	What governance procedures should apply to the offtake agreement?	M	DISG	Governance of the offtake agreement to be discussed at DISG 16.	Ofgem & NGT	170804		Arrangements need to enable transparent governance procedures. Risk of lack of clarity in delineation of roles of O/ANC.
64	What governance procedures should apply to the distribution charging methodologies?	M	DISG	Ofgem position to be provided at DISG 15.		30804		
65	What governance procedures should apply to the credit rules for distribution charges?	M	DISG	NGT to present proposed business rules for credit arrangements to DISG 16.	Ofgem	30804		
66	Will proposals give rise to a need for primary and/or secondary legislation to be implemented?	M	RAWG	Ofgem is considering this issue.				
67	What transitional arrangements are required to move to a new regime?	M	RAWG	To be considered in the context of the development of more detailed business rules.				How will shippers' existing rights and liabilities transfer to new DN owners?
68	Will the Directions and Determinations issued to Transco under Section 12 of the Gas Act apply to the new legal entities?	L	RAWG	Ofgem technical directorate intends to undertake a review. Mike Ashworth to report back to DISG.				