

DN SALES ISSUES LOG

Date: 2 February 2004

Version: 2.2

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				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		Xoserve to have board representatives from each GT with special majority voting arrangements.	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		Unless the scope of the SPAA is broadened, it is not necessary for the agency governance arrangements to interact with the SPAA. Not a DN sales issue.	
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	A number of Mods are currently underway. SPAWG to undertake final check in March.	SPAWG	Closed	Closed pending contrary report from SPAWG in March.	
5B	What arrangements should be adopted in relation to services that NGT provides on an informal basis?	M	SPAWG DISG		SPAWG	Closed	Shippers have the opportunity to raise modifications to the UNC if they consider that the provision of a service should be formalised.	
6	What separation requirements should apply between Transco and RDNs?	H	DISG		Ofgem	Closed	The Authority has decided to implement a regime of targeted structural separation and a package of licence conditions designed to replicate the effect of legal separation.	

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7	Is any other action required to ensure non-discrimination between RDNs/IDNs?	M	DISG	Interim arrangements being developed through UNC process		Closed	Offtake arrangements to be implemented in September through a UNC code modification.	
8	What arrangements need to be put in place in respect of the provision of metering services and ownership of metering assets?	L	DISG		Ofgem	Closed	Transco to retain metering assets. Last resort meter provider obligations to pass to DNs.	
8A	Do any issues arise in relation to bailment (ie, where an asset is installed in the property of another person)?	L	DISG			Closed	NGT legal has advised that no bailment issues arise as a result of DN sales.	
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	Closed	Ofgem consulting on a new licence condition relating to service standards in connections.	
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	Closed	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		NGT	Closed	Revisions to GT licence puts in place arrangements for GTs.	
12	How much will it cost to implement the reform proposals - in particular, how much will it cost to update IT systems?	H	DISG			Closed	Ofgem published results of shipper survey and other analysis in Final IA, which suggested that the gross NPV cost to shippers arising as a result of DN sales would be between £82 and £118 m, of which upfront IT costs were approximately £18 m.	
13	Are shippers' systems interfaces able to support the reform proposals?	H	DISG	Transco to discuss with shippers the changes required to support changes to the exit regime.	NGT	Open		

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14	What provisions should be in the offtake agreement?	H	CIWG	To be developed through UNC drafting process.		Closed	The NTS/DN operator arrangements should set out the technical arrangements at the NTS.DN interface. Commercial parameters should be common to all NTS customers and should be set out in the UNC.	
14A	What are the implications of NGT's SOMSA proposal?	H	DISG CIWG	CIWG's position on SOMSAs agreed at DISG 14.		Closed		
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		Closed	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			Closed	R&R decision document indicates that it is important to distinguish between energy balancing and network interruptions.	
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.		Closed	In the interim arrangements, the NTS will notify the DN of its interruptible requirements and the offtakes where interruption is required. The DN is responsible for entering into contracts to meet the NTS's requirements.	
18	Does the Gas Act permit Transco to contract directly with customers for interruptions?	H	CIWG			Closed	Customers will contract via shippers for interruption.	
19	What arrangements should be in place for the pricing of exit capacity and interruptions?	M	CIWG	Transco to issue Pricing Discussion Papers.	Ofgem	Closed	Developed via UNC process.	
20	How should local market power constraints be addressed in the new exit arrangements?	L	CIWG			Closed	Enduring arrangements to be introduced by September 2005.	

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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			Closed	Contractual arrangements to be maintained throughout transition from NC to UNC.	
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.		Closed	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.		Closed	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		Ofgem	Closed	Flow flexibility product developed through EDF. Enduring arrangements to be introduced by September 2005.	
25	What charging arrangements, if any, should apply to transfers of gas and linepack between DNs and the NTS?	H	CIWG			Closed	Resolved with offtake decision document and Final IA. Option 2A payment flows.	Risk that an absence of charging methodologies could lead to inefficient investment and operational decisions as well as discrimination between DNs.
26	How will the NTS & DN co-ordinate investment and planning for diurnal storage?	H	CIWG			Closed	Via offtake arrangements, and long term planning process (as set out in the licence).	

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27	Who has title to gas within the network?	L	DISG		NGT	Closed	Shipper's positions in respect of title and risk remain the same. In order to ensure consistency with Gas Act assumptions, Shippers will be deemed to simultaneously offtake gas from the NTS and reintroduce it into the LDZ at the point of offtake .	
28	Should shrinkage arrangements be fully unbundled at this stage?	H	CIWG			Closed	Each GT to have their own shrinkage provider account. Annual DN shrinkage review process to be undertaken jointly.	
29	What is the appropriate cost recovery mechanism for shrinkage?	H	CIWG			Closed	Status quo to remain.	
30	What arrangements should be put in place to ensure that Gas Act and GSMR gas quality obligations are met?	H	CIWG RAWG			Closed	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			Closed	Review by Ofgem's technical directorate recommends the removal of the wet gas testing regime.	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	Closed	Transco has indicated that it has not entered into any such agreements.	
32	What arrangements should be in place with regard to handling emergencies and co-ordination in the case of emergencies?	H	DISG			Closed	GTs are under a licence obligation to co-ordinate in the case of emergencies. Transco NTS to take on role of NEC.	
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	Closed	Investment co-ordination issues are NTS-DN, not DN-DN. Issue addressed by #36.	

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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.		Closed	Transco has indicated that the regulatory boundaries of the DNs are consistent with the boundaries of the assets sold.	
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	Closed	To be set out in the NTS/DN operator agreement	
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	Closed	Licence requirements supplemented by commercial regime under the enduring offtake arrangements.	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.		Open	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			Closed	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.		Closed		
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.		Closed		

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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.		Closed	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.
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	Closed	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.		Closed	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	Closed	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.		Closed	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	Closed	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 check buyers financing plans		Closed	Buyers to undergo financial health checks to ensure they are able to meet financial licence requirements.	RIA analysis creates doubt over benefits if (1) only one DN is sold or (2) a non-trade buyer purchases a DN.

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48	Is Ofgem up to date with DN sale-related developments at the HSE and vice versa?	M	Ofgem	HSE updated regularly		Ongoing		
49	Is Ofgem up to date with DN sale-related developments at the DTI and vice versa?	M	Ofgem	DTI updated regularly.		Ongoing		
50	Should Ofgem's asset risk management survey be extended in scope to include smaller independent networks?	L	Ofgem			Closed	Next time the asset risk management survey is undertaken IDNs will be included	
51	What is the process for issuing and approving licences for the new DN businesses?	M	Ofgem RAWG			Closed	Process explained in Ofgem open letter on timetable dated 16 July 2004.	
52	How should DN licence fees be recovered?	L	Ofgem RAWG			Closed	As per Standard Licence Condition.	
53	What arrangements should apply with respect to the network code?	H	RAWG			Closed	UNC cross referenced in individual GT's short form codes.	
54	What changes need to be made to the network code for it to support separate transmission and distribution roles?	M	DISG			Closed	Issue progressed through UNC development process.	
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	Closed	Position developed through DISG and consulted upon in Final IA.	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	Closed	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.	

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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	Closed	Each DN should have responsibility for the policy development of its own charging methodology, however the secretariat functions associated with processing	
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	Closed	GT licence containing Standard, Standard Special and Special licence conditions to be introduced.	
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		Ofgem	Closed	S8AA issued in Feb 2005	
59	What, if any, new licence conditions should be introduced?	M	Ofgem		Ofgem	Closed	S8AA issued in Feb 2005	
59A	Will the NTS and DNs have appropriate statutory rights and obligations under the new structure?	M	Ofgem			Closed		
59B	Are changes needed to shipper or supplier licences?	M	SPAWGDISG	Ofgem to consult on Direction regarding Gas Suppliers SLC21 (obligation to publish transporter details).		Closed	Ofgem to issue Direction.	
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	Closed	Great Britain	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	Closed	No action required - right conferred to GTs under Gas Act	Is this right conferred by the Gas Act?

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62A	How will the arrangements for site isolation operate in practice?	M	DISG	NGT to provide proposals for detailed UNC development.	NGT	Closed	Developed via UNC process	This is a Network Code issue associated with disconnections.
63	What governance procedures should apply to the offtake agreement?	M	DISG				Developed via UNC process	Arrangements need to enable transparent governance procedures. Risk of lack of clarity in delineation of roles of OA/NC.
64	What governance procedures should apply to the distribution charging methodologies?	M	DISG	Ofgem position to be provided at DISG 15.		Closed		
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	Closed	Status quo retained	
66	Will proposals give rise to a need for primary and/or secondary legislation to be implemented?	M	RAWG	Ofgem is considering this issue.		Closed	Secondary legislation required to give effect to exemption	
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.		Open		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			Closed	Yes	