

## SECTION 8AA/SECTION 23 CONSULTATIONS ON GT LICENCE CONDITIONS

### COMMENTS TABLE

#### **Standard Special Conditions applicable to both NTS and DN Licensees:**

<b>Ref</b>	<b>Condition</b>	<b>Comments</b>
A1	Switch on/Switch off	<p>Centrica believes that the reference in paragraph 8 to the direction in paragraph 7 should refer to the direction in paragraph 6.</p> <p>In addition, we believe that the drafting of paragraph 1(ii) in particular is complex, and would benefit from additional clarification.</p>
A3	Definitions & Interpretation	<p>The definition of “metering equipment” in this condition refers back to section M of the 1997 NWC. The same device is used in a small number of other places in the licence drafting. Centrica believes it would be beneficial to reproduce the relevant text, either as part of the definition, or as a supplementary annex to the conditions, to aid accessibility.</p>
A4	Charging – General	<p>Given that the 150 days notice of change (indicatives) to the Authority is included in the licence, we would like to see the 60 days notice (actuals) included for consistency.</p> <p>In paragraph 2(c) after sub-paragraph (a), we believe “of paragraph 1” should be inserted.</p> <p>It may be clearer to reword so that 2 (d) reads “give the Authority notice of any proposals to change the charges or reserve charges mentioned in paragraph 1 which it is considering...”</p> <p>2(e) in final line, it may be useful to specify the sub-para as (e).</p> <p>In respect of paragraph 8(b), we are unsure of the effect of this paragraph, and would be grateful for an example of the type of charges which might be levied as a result of this provision.</p>
A5	Obligations as regards charging methodology	<p>We believe that 5(c) needs to include subparagraphs (a) &amp; (b)</p> <p>In addition to the above, we believe it would be helpful to provide an end date in each year by which the report required under paragraph 3 should be furnished to the Authority.</p>
A8	Emergency Services and Enquiry Service Obligations	<p>Centrica is of the view that paragraphs 12 and 13 in this condition should be explicitly referenced to the arrangements detailed earlier in this condition.</p>
A10	Provision and Return of Meters	<p>In paragraph 6, we believe the cross reference should be to SSC A50 not SSC A5</p>

A11	NWC and UNC	<p>Para 10 – it is not yet clear whether the provision for proposal of alternative mods is intended to replace or supplement the ability to develop mods through the workgroup process. If it is intended to replace, Centrica is concerned that a level of existing flexibility may be lost. Equally, we believe clarity is needed as to whether a “developed” mod constitutes an “alternative” mod. The same points apply under paragraph 11.</p> <p>Para 15 (a)(iv) – Centrica is concerned that the current proposal may be insufficient, leaving aside the debate on whether a recommendation should be made at this juncture. We understand from DISG and an e-mail from NGT that the intent of the voting is that there will always be a recommendation, for example, simple majority of those present is required to produce a recommendation to implement, and failure of the vote produces a recommendation not to implement. We believe that this may not be the case and we are think that a failure to recommend implementation may not be the same in legal terms as a recommendation not to implement. If a recommendation is not made then we are concerned that the right of appeal might be ineffective.</p> <p>Para 19 (a) – Centrica believe that this drafting may be ambiguous as it seems to imply that there is a question on whether the UNC would be implemented, but it is our understanding that the UNC would need to be implemented at/around the same time as the licence was accepted.</p>
A12	Joint Office Governance Arrangements	<p>Para 4(a)(vii) – we believe it would be clearer to specify that one copy of the summary on behalf of all GTs is sufficient for the UNC though each NWC may merit its own summary on the basis of one summary per document.</p> <p>Centrica also considers that it may be helpful to extend the obligation to provide a summary to other documents in the suite.</p>
A15	Agency	<p>Para 3 (iii) – Centrica is concerned that the term “users” of the Agency requires additional definition, we are unable to locate a definition, and as the term “Users” has a specific meaning in NWC we believe confusion may result. We understand from DISG and consultation that the intention is the GTs will meet the costs of the Agency throughout the remainder of this price control period, as they have already been granted appropriate funding.</p> <p>Given this is the case, we believe that “users” in this sense should either be defined as the GTs, or replaced by the term “GT”.</p>
A27	Disposal of Assets	<p>Also in the draft Determinations, para 2, Centrica believes the average charges to customers connected to independent systems should be calculated on a DN basis rather than nationally, to avoid variation of charging for domestic customers within a DN. If this is not the case then the charges</p>

		<p>levied in respect of these customers will not be comparable to the distribution charges faced by customers elsewhere in the same network.</p> <p>In para 3, the last sentence would be improved by referencing “..the average “wholesale” price of gas consisting principally of methane “as” supplied to large industrial...”.</p> <p>Centrica requests confirmation that the costs of the activities related to the Statutory Undertakings are included within the cost base of xoserve.</p>
A33	Restriction on Use of Certain Information and independence of the Transportation Business	<p>Centrica does not believe that the current drafting of A33 is sufficiently extensive to cover prevention of access to confidential information by any related generation, businesses in the same group of companies. This principle would need to flow throughout the condition via a number of paragraphs, for example 6(c) and associated sub-paragraphs.</p> <p>We understand that an additional consultation is planned on this point.</p>
A34	Appointment of Compliance Officer	<p>This officer is linked specifically to conditions A33 and A35, not clear whether this can be the same individual as the one required under C21, though is clear in the “C” conditions.</p> <p>In view of the fact that a new and complex regime is being implemented, which will necessitate behavioural changes among staff at the DNs, Centrica is strongly of the view that the report provided to the Authority under paragraph 8 of this condition should be subject to independent audit, and accompanied by a formal audit opinion.</p> <p>We believe that the additional assurance provided by such an audit would be of value both to the Authority and the wider community providing confidence in the robust nature of the new regime. If, for example, the audit procedures have resulted in clean opinions for each of the years leading to the end of this price control period, then consideration could be given at that time as to whether the activity was necessary on an ongoing basis.</p>
A40	Price Control Review Information	<p>In respect of the audit provision, it would be helpful to clarify if it is the regulator who appoints/rotates the auditors.</p> <p>In part D (9), Centrica is of the view that it would be helpful to build in a requirement for consultation of all interested parties rather than just the GTs.</p>
A48	Last Resort Supply: Payment Claims	<p>Whilst Centrica understands that the drafting replicates the existing condition, we are of the view that clarity could be improved by the following changes:</p> <p>Remove paragraph “number 2” and “The following provisions apply”, so the sentence starts with :</p>

		“Where the licensee receives from a claimant a valid claim for a last resort supply payment, the licensee shall; (i) During the relevant year....specified amount (ii) During, or as soon as practicable....specified amount.”
A49	Designated Registrar of Pipes	Under paragraph 4(c) we believe the reference should be to SSC A51 not SSC A50.
A50	System Development Obligations	In paragraph 10(b), we believe that the sub-paragraph should break after “premises” in the second line, as the words that follow relate to both sub-paragraphs (a) and (b).
A55	Enduring offtake arrangements	No comments in addition to those concerns already raised

**Standard Special Conditions applicable to all NTS Licensees:**

Ref	Condition	Comments
B1	Switch on/Switch off	Believe that the reference in para 8 to the direction in para7 should refer to the direction in para 6.  The same points would apply as under SSC A1

**Special Conditions applicable to all NTS Licensees:**

Ref	Condition	Comments
C2	Long Term Development Statement	It would be helpful to confirm whether the directions given by the Authority will deal with the issue of timing the production of the statements prepared under this condition by the NTS and DNS, to facilitate the preparation of the overall 10YS  Under 3(c), we believe it would be helpful to include a requirement to publish free of charge on a suitable website as well as in hard copy, for a charge.
C7	Charging Obligations	Centrica continues to be concerned with respect to the timing indicated in para 1(b). If a change is made outside the provisions of 1 (b)(a) (i) or (ii), then the licensee may notify the Authority, up to 3 months after the change has been implemented, of the basis for the change.  Approaching changes in this way might deprive the industry of the required 2-month notice period for changes. As suggested under A4, we would also prefer to see the requirement for the 2-month notice period reflected in the licence, as is the 150 day notice period to the Authority.  In addition to the potential lack of notice mentioned above, we are concerned that this would not allow the Authority an opportunity to veto inappropriate changes, but we believe that if a change were to be implemented which would fail the test against the Relevant Objectives, then the licence itself should provide an adequate protection.

		Our reason for concern is that we believe the reasonable endeavours restriction on the frequency of price changes will increase the risk that changes may be made under this provision.
C8A	Revenue restriction definitions	Not yet reviewed as an additional set of drafting has since been issued, we reserve the right to respond to this condition once all details have been clarified, and we assume that Ofgem have allowed sufficient time in the timetable to allow for such a process.
C8B	Restriction of revenue on NTS SO and NTS TO activity	Not yet reviewed as an additional set of drafting has since been issued, we reserve the right to respond to this condition once all details have been clarified, and we assume that Ofgem have allowed sufficient time in the timetable to allow for such a process.
C9	Allocation of Revenues and costs for calculation under the price control in respect of the NTS TO activity and NTS SO activity	We believe it would be helpful to clarify whether 1(b)(ii)(dd) would capture unlicensed companies or activities within the group.
C10	Supplementary provisions of the revenue restrictions in respect of the NTS TO and NTS SO activity	We believe that the first word of 3(b) should be “derived”?
C14	Information to be provided to the Authority in connection with the transportation system revenue restriction in respect of the NTS TO and SO activity	Not yet reviewed pending C8A & C8B reviews
C15	Licensee's methodology for determining incremental entry capacity volumes	We believe that it would be helpful to include a requirement to publish the statements required under para 10 on a suitable website free of charge as well as in hard copy with an associated cost.
C20	Separation of NTS and DN businesses	<p>The effect of para 5 is that the Managerial board charged with directing affairs and taking substantial decisions could consist of just two members, both of whom are directors of Transco plc. Centrica believes that the licence should formally require a wider representation on the managerial boards and include a requirement that there should be some members of the managerial boards who do not sit on both.</p> <p>Whilst we understand that this is reflective of the position obtaining under the Companies Act, we believe that provision should be made in this condition to ensure that the boards include a wider representation.</p>

		<p>Whilst it does not form part of this consultation, NGT has also issued a draft of the statement required by this condition. In its present form, Centrica does not believe that the statement fully reflects the provisions of this condition C20 and condition C21, we also believe that the statement would benefit from the inclusion of some additional detail as to how separation would be effected and maintained.</p> <p>Comments under E10 (RDNs) are also relevant.</p>
C21	Appointment and duties of the business separation compliance officer	<p>It may be useful to consider whom the licensee “is” in this condition and also whom the supervisory body should be, i.e. whether it should be a sub committee of the board of directors of the licensee or whether it should be a sub committee of the main board, i.e. the board of NGT.</p> <p>Under para 5, it is not at all clear how any other party would be able to prove that a complaint should/could be made.</p> <p>It is also believed appropriate that the reports produced should be independently audited prior to publication.</p>

**Standard Special Conditions applicable to all DN Licensees:**

Ref	Condition	Comments
D1	Switch on/Switch off	<p>Believe that the reference in para 8 to the direction in para7 should refer to the direction in para 6.</p> <p>The points raised under SSC A1 would also be relevant here.</p>
D3	Long Term Development Statement	<p>As under C2, we assume that the direction issued by the Authority will address the need for co-ordination of timing with the NTS</p> <p>We would also recommend that the resulting publications should be required to be freely available on a website as well as in hard copy for a charge.</p>
D5	Licensee’s procurement and use of system management services	<p>Under para 3, we are concerned that whereas the terms of the kind of system management services the DN is interested in purchasing may be publicly available to all and let on equivalent terms, there may be an incentive for those terms to be specified in such a way that they may be most easily met by a related undertaking.</p> <p>Whilst we expect that this scenario would be covered by normal competition law, it would require vigilance to ensure the situation does not occur, and a readiness to investigate complaints that may arise.</p>
D8	Reform of distribution network interruption arrangements	No comments in addition to the concerns previously identified

D10	Provision of Connections Information	<p>Centrica believes that the Overall Standards are still set significantly below (at 90%) what we would expect to see - for the remaining 10% of customers there will be no incentive to focus on final outcomes;</p> <p>The proposals do not ensure that quotations are accurate, a key industry concern, under the current scheme that deals with incorrect prices, probably less than 20% of current quotations being returned due to inaccuracy would be caught;</p> <p>Completion of the connections work has no regulated time limit, reducing the existing performance measures under the Order - existing arrangements would secure domestic connections usually within D + 15 days. Under the revised proposals, this requirement could be met by the provision of a date; and</p> <p>The proposals are capped at a limit of 5 domestic properties - Centrica believes this will disadvantage local regeneration projects and smaller local builders providing infill services.</p>
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**Special Conditions applicable to DN Licensees – RDN:**

Ref	Condition	Comments
E2A	Revenue Restriction Definitions in respect of the DN	The definition of firm entry capacity may be clearer if the word “that” is removed.
E2B	Restriction of revenue in respect of the DN transportation activity	<p>These comments are based on the drafting for the North West, but may also need to be applied to the drafting for the other RDNs.</p> <p>Para 10(4) – we believe that Part I b should be Part “1” b?</p>
E4	Supplementary provisions of the revenue restrictions in respect of the DN	Para 3 and the subparagraphs may require slight rewording, as they do not seem to flow at present.
E10	Separation of the NTS and the Distribution Network Businesses	<p>The drafting of paragraph 2 seems ambiguous, in that the main paragraph states the</p> <p>“...establishment of separate managerial boards for each of:  (a) the associated gas transporter businesses <i>taken as a whole</i>, as defined in this condition; and  (b) the transportation business in respect of the NTS”</p> <p>This implies a total of two managerial boards, one for the NTS and one for the RDNs, each of which need only be composed of two members, both of which would then be Directors of Transco plc. There is also nothing to prevent these two individuals being the same for both the NTS and the RDNs. Whilst there is an obligation on these directors to act as if they</p>

		are directors of a legally incorporated company etc, we believe that a requirement for a wider representation would be beneficial to the quality of the separation regime.
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**Special Conditions applicable to DN Licensees – Northern DN (and other IDN licences):**

Ref	Condition	Comments
E2A	Revenue Restriction Definitions in respect of the DN	The definition of firm entry capacity may be clearer if the word “that” is removed.
E2B	Restriction of revenue in respect of the DN transportation activity	Para 10(4) – we believe that Part I b should be Part “1” b
E4	Supplementary provisions of the revenue restrictions in respect of the DN	Para 3 and the subparagraphs may require slight rewording as they do not seem to flow at present.
E11	Amendment to Credit Rating of the Licensee	Need to confirm the purpose/benefit of this condition