



Making a positive difference
for energy consumers

To independent gas transporters and other network operators, generators, shippers, suppliers, consumers and their representatives, the sustainable development community, investors and other interested parties.

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Date: 5 June 2015

Dear Colleague,

Statutory Consultation Notice on proposed modifications to Standard Licence Condition (SLC) 30 (Regulatory Accounts), SLC 1 (Definitions), SLC 30A (Change of Financial Year) and SLC 44 (Availability of Resources) of the Gas Transporters Licence

On 11 November 2014 we published a consultation letter on our proposal to modify SLC 30 (Regulatory Accounts) of the Gas Transporters Licence and SLC 1 (Definitions), SLC 30A (Change of Financial Year) and SLC 44 (Availability of Resources).

We received two responses that supported the proposed changes. We carefully considered the responses and have decided to proceed to a statutory consultation. We have published this alongside this letter.

The overall objectives of our formal proposals are the same as those in our informal consultation letter, and are reprised below. However, we have made some changes to the drafting that was appended to our informal consultation letter, and these changes are explained below.

Background

SLC 30 applies to independent gas transporters (IGTs) who own and operate relatively small gas distribution networks embedded in the larger networks operated by incumbent gas distribution network operators (GDNs). SLC 30 is not applicable to GDNs or to the National Transmission System licensee (NTS) and neither are SLC 30A nor SLC 44. However, SLC 1 applies to GDNs and the NTS as well as to IGTs and so the formal proposals are addressed to all holders of a Gas Transporters Licence.

Our proposals

Our proposals aim to:

- (a) ensure that requirements for preparing, submitting, and the availability of accounts by independent gas transporters are consistent with the requirements of Directive 2009/73/EC of the European Parliament and of the Council (the Directive);
- (b) require an IGT, regardless of its ownership structure or legal form, to file, publish, and submit to audit, annual accounts as if it were subject to the requirements of the Companies Act 1986, as amended;
- (c) require an IGT to keep a copy of the annual accounts referred to in sub-paragraph (b) at the disposal of the public at its principal place of business if it does not have to file the accounts at Companies House;
- (d) remove the requirement for an IGT to submit separate audited Regulatory Accounts to Ofgem, including current cost accounts aligned to the 'Formula Years' referred to in gas distribution price controls for GDNs; and
- (e) require an IGT to:
 - keep separate internal accounts (records) for different segments of its business; and
 - arrange for agreed upon audit procedures (AUPs) to be carried out by an auditor to satisfy the obligation in the Directive to avoid discrimination and cross-subsidies,where it carries out gas transmission or gas storage activities in addition to gas transportation.

Updates to drafting following our informal consultation

In drafting our Statutory Consultation Notice, we have changed the drafting that we attached to our informal consultation letter:

- (a) We have added an opening paragraph to specify that the provisions of the modified condition will only come into effect on 1 August 2016. This means that the first financial year that a requirement for AUPs could apply to is financial year 2017/18.
- (b) We have changed previous references to 'national company law' to the Companies Act 2006, as amended, which is the relevant legislation in Great Britain.
- (c) We have made minor changes to clarify:
 - internal accounting requirements; and
 - that copies of annual accounts only need to be kept at the disposal of the public at the licensee's principal place of business if it does not have to file accounts at Companies House.
- (d) We have amended the requirement relating to AUPs to reflect our interpretation of requirements in the Directive and our assessment of cross-subsidy risks associated with IGTs. Our revised drafting means that an IGT need only be subject to AUPs if it carries out gas transmission or storage activities within the licensee company. We will make AUPs available to IGTs for each financial year from the date the requirement commences.

There are no substantive changes to our drafting for the consequential changes to SLC 1, SLC 30A and SLC 44. Please refer to the statutory consultation notice published alongside this letter for full details of our proposed licence modifications.

Next steps

If you want to respond to our Statutory Consultation Notice, the deadline is 17 July 2015. To respond, or if you have any queries on this letter, contact Paul Darby in Ofgem's Regulatory Finance team (paul.darby@ofgem.gov.uk).

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Ian Rowson', written in a cursive style.

Ian Rowson
Associate Partner, Regulatory Finance