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Dear Rupika

NATIONAL GRID'S SALE OF GAS DISTRIBUTION NETWORK BUSINESS - CONSULTATION ON REGULATORY ASPECTS

SSE welcomes the opportunity to comment on the above consultation document. We believe many of the issues raised are unique to National Grid Gas (NGG) and are a result of it owning and operating gas transmission and distribution assets. This introduces specific considerations when looking at the proposed sale of a stake in its gas distribution network business. As other GDN businesses currently sit under separate ring fenced legal entities, most of the issues raised would not apply directly to them.

In general terms, we are supportive of the proposed sale and believe the creation of a new subsidiary company (NewCo) and the transfer of NGG gas distribution assets and the associated licence to this company is an appropriate basis on which to proceed. In particular, it will provide greater transparency and separation of roles, responsibilities, assets and liabilities of NGG and will help ensure the new business operates on a similar footing to other GDNs in GB.

Leading up to the sale of 4 gas distribution networks in 2005 a significant amount of work was carried out to ring fence transmission and distribution activities and clearly define the roles and responsibilities. We believe this provides a good starting point for the proposed sale. A key driver for the 2005 sale was the opportunity to develop comparative regulation across 8 networks and 4 separate owners; it is therefore essential that roles, responsibilities, assets and liabilities are transferred to the NewCo and structured in a similar way to other GDNs to ensure fairness and consistency across price control arrangements. We are keen to understand what, if any, additional issues Ofgem believes may need to be considered under RIIO-GD1 and future price control reviews.

We agree the focus of the regulator should be to ensure transparency and appropriate allocation of roles and responsibilities. As such the Authority's interest in "hive across" should be focused on the following areas to ensure they remain fit for purpose

DISPOSAL OF ASSETS (SC29) - Arrangements should ensure ownership and control arrangements between T and D are appropriately allocated to maintain the safe and efficient operation of a stand alone gas distribution network and avoid undue reliance by NewCo on the NGG transmission business.

INDEPENDENCE OF THE BUSINESS AND RESTRICTION ON USE OF INFORMATION (SC39 AND SC41) - Arrangements should facilitate comparative regulation and ensure NewCo activities, resources, access to information etc. avoids cross subsidy, preferential treatment or unfair advantage relative to other GDNs.

AVAILABILITY OF RESOURCE AND UNDERTAKING FROM ULTIMATE CONTROLLER (SC44 AND 45) - Resources, expertise, systems etc. must be allocated and transferred across NGG transmission and NewCo distribution in a robust and transparent manner to ensure the businesses can continue to operate in a safe, economic and efficient manner. We note plans for NGG to continue to provide corporate services to the NewCo. We believe this model has been shown to be efficient but this must be done in a cost reflective way to avoid cross subsidy. This can be achieved with review of the proposed basis of charging and SLAs etc. Given NGG's wider role in the industry, it is also essential that business separation and the proposed sale is achieved without any detrimental impact on wider industry services e.g. the emergency call service, Xoserve and Joint the Office.

In addition to the general points set out above, we have provided additional detail in response to specific consultation questions in Appendix 1 attached. We would be happy to discuss any matter in more detail if this would be helpful.

We look forward to reviewing the conclusions of the consultation alongside the Authority's decision on whether to consent to the transfer of gas distribution assets and where relevant, any associated modifications to transmission and distribution licenses.

Yours sincerely

Beverley Grubb
Regulation Manager

APPENDIX 1

RESPONSE TO CONSULTATION QUESTIONS

QUESTION 1: WHAT IS YOUR VIEW AS TO WHICH ENTITY, AND THEREFORE LICENCE SHOULD HOLD THE BMPOLR OBLIGATIONS AND WHY IN THE EVENT THAT THE PROPOSED ASSET AND LICENCE TRANSFER TAKES PLACE?

We support proposals to transfer this obligation to the transmission business. As set out above, we believe this would help ensure greater consistency across all GB GDNs and provide greater opportunity for comparative analysis, benchmarking and regulation. It would also appear to be the easiest to implement, requiring least change to contractual arrangements.

QUESTION 2: DO YOU HAVE ANY COMMENTS IN RELATION TO THE XOSERVE ARRANGEMENTS AS A RESULT OF THE PROPOSED HIVE ACROSS OF NGG'S GAS DISTRIBUTION BUSINESS TO NEWCO?

Xoserve is jointly owned by all gas transporters in GB. While we support NGG's plans to transfer their distribution share to the NewCo once the assets and licence are transferred, there are commercial arrangements that need to be implemented between transporters. These commercial arrangements are equally important for the ongoing provision of essential transportation services. We are keen to ensure this is a smooth and seamless process and transition, particularly given the significant work planned in this area under project Nexus. We would appreciate further detail regarding NGG commitments to ensure a smooth transition and delivery of services. We believe this should be a condition precedent for sale.

QUESTION 3: DO YOU HAVE ANY COMMENTS ON THE IMPACT OF THE PROSED HIVE ACROSS ON THE JOINT OFFICE ARRANGEMENTS?

Our response is similar to Question 2 above. Arrangements introduced at GDN sales place joint obligations on all transporters to establish such services. Services are provided through a Joint Governance Agreement. It is essential that the NewCo accedes to this agreement and transfer is seamless. In particular, we note the unique role of NGG in terms of providing resource and expertise to the Joint Office. We are keen to maintain consistency in approach to ensure there is no detrimental impact to the industry or additional cost. We would expect NGG to provide appropriate commitments in this area.

QUESTION 4: DO YOU HAVE ANY COMMENTS IN RELATION T THE PROVISION OF THE 0800 EMERGENCY NUMBER IN THE EVENT THAT THE PROPOSED ASSET AND LICENCE TRANSFERS TAKE PLACE?

Given the critical nature of these services we support proposals to move the services, assets, people, systems etc. to NewCo and proposals to consult the HSE and seek approval for an amended Safety Case. We are keen to ensure there is no detrimental impact on

service or standards. We agree Ofgem's consent to the transfer of assets and the licence should be conditional on HSE's acceptance of the Safety Case.

QUESTION 5: WHAT ARE YOUR VIEWS ON THE NEED FOR COMPLIANCE REQUIREMENTS (ADDITIONAL TO THOSE OF OTHER RELEVANT GAS TRANSPORTERS) IN NGG'S GAS TRANSMISSION LICENCE AND IN NEWCo'S GAS DISTRIBUTION LICENCE IN THE EVENT THAT THE PROPOSED ASSET AND LICENCE TRANSFERS TAKE PLACE?

As set out above, we believe the proposed new arrangements should put the NewCo on a similar footing to other GDNs in GB with complete functional separation of T and D. To that extent any services provided by or to the NewCo to NGG transmission should be at arms length and transparent to give confidence there is no cross subsidy or preferential treatment. We do not envisage there is a need for additional conditions relative to other GB GDNs; as set out above, we believe existing conditions provide a good starting point, particularly those relating to restriction on use of information, independence of the business, financial ring fencing, availability of resource and undertakings from ultimate controllers. They should be sufficient to ensure the NewCo can continue to operate in a safe, economic and efficient manner with appropriate commitments and undertakings from new owners.

QUESTION 6: ARE THERE ANY OTHER CONCERNS OR ISSUES REGARDING NGG'S OBLIGATIONS POTENTIALLY AFFECTED BY THE PROPOSED HIVE ACROSS THAT YOU WOULD LIKE TO RAISE?

We are unclear what specific changes Ofgem envisages might be required to the UNC to separate T and D functions and responsibilities. Further clarification would be helpful in due course. Also we note there are a number arrangements / agreements that sit under the UNC, particularly in relation to operational arrangements between networks. Further consideration should be given to these to ensure robust end to end processes and arrangements are maintained.

QUESTION 7: DO YOU HAVE ANY COMMENTS ON THE AUTHORITY'S PROPOSED CONDITIONS FOR ASSET TRANSFER, OR ANY OTHER CONDITIONS YOU WOULD LIKE TO RAISE?

Please see comments above.

QUESTION 8: DO YOU HAVE ANY COMMENTS ON THE DETAIL OF THE PROPOSED DRAFT LICENCE AMENDMENTS?

We have no specific comments at this time.