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By email to NGGD.Separation@ofgem.gov.uk

31 May 2016

Dear Rupika,

National Grid's sale of Gas Distribution Network business - Consultation on Regulatory Aspects

Thank you for the opportunity to respond to your consultation in relation to the sale of a National Grid's Gas Distribution Network business¹.

Our response has been structured around each of the questions raised in the above consultation document, with the purpose of assisting ease of reference when comparing responses from other industry participants.

CHAPTER: Three

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 consider that the most appropriate entity to manage the Backstop Meter Provider of Last Resort (BMPOLR) arrangements should be National Grid Gas Plc in respect of its high pressure transmission business. To this end, we consider that the obligation should move to the Gas Transmission licence held by National Grid.

During their consultation National Grid indicated that this approach ("Option 1") presents no material change, while the proposed alternative ("Option 2") would require a review of the existing arrangements and likely new contracting arrangements. To this end, we consider that Option 1 represents a more smooth transition of activities and therefore provides more stability to the market².

Furthermore, while we acknowledge the challenge that the BMPOLR activities may not be an obvious fit with typical transmission activities, we support the view that by undertaking the BMPOLR activities though their transmission business activities National Grid can manage the service on a national basis and thus ensuring that there is no undue preference or discrimination in delivery of the service.

¹ https://www.ofgem.gov.uk/system/files/docs/2016/05/160503_gdn_sale_con_doc_final.pdf

² P8-9, Sale of a Majority Stake in National Grid' gas Distribution Network Business – Response Document – April 2016

Question 2: Do you have any comments in relation to the Xoserve arrangements as a result of the proposed hive across of National Grid Gas Plc (NGG)'s gas distribution business to NewCo?

We support the proposal to transfer National Grid's existing four GDN shareholdings in Xoserve to NewCo. We do not have any concerns regarding the stability of Xoserve services during this period, however we would encourage National Grid and NewCo to take all reasonable measures to avoid any impacts to the work currently being undertaken through the Funding, Governance and Ownership (FGO) and Project Nexus programmes during, and immediately after, the hive across.

Question 3: Do you have any comments on the impact of the proposed hive across on the Joint Office arrangements?

We support the proposal to retain the existing Joint Governance Arrangements Committee (JGAC) composition arrangements, with the relevant responsibilities transferring to the new gas distribution business. Furthermore, we welcome the indication from National Grid that there are currently no anticipated impacts to the current resourcing of the Joint Office, as this should avoid any impact on the transfer and ensure continuity.

Question 4: Do you have any comments in relation to the provision of the 0800 emergency number in the event that the proposed asset and licence transfers take place?

We support the view that the 0800 number activities should remain with the duty holder, and therefore should transfer to the new gas distribution company, alongside the asset and licence transfers.

We are confident that National Grid will ensure that the transitional arrangements to move to the new gas distribution business will safeguard the stability of services such as the 0800 number.

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?

We consider that, in the absence of legal separation, the relevant licence conditions which currently appear in National Grid's transmission and distribution licences have protected all parties well and have achieved the benefits of legal separation.

We would support the view that undue discrimination should always be avoided. However, we would also encourage the clear and efficient application of licence obligations, and to this end consider that only the minimum required conditions should appear in any given party's licence. Therefore, while we would support the continued inclusion of conditions 10A, 10B and 10C within National Grid's transmission licence, and conditions 4E and 4F within National Grid's distribution licence, we would also welcome the suggested review of the wording to ensure that the enduring text is proportionate to the new arrangements.

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?

At this stage we do not have any other concerns. Given the scale of the sales activity we would welcome ongoing engagement and consultation to ensure that any concerns or issues which subsequently come to light can be fully considered.

CHAPTER: Four

Question 7: Do you have any comments on the Authority's proposed conditions for the asset transfer, or on any other conditions you would like to raise?

We support the proposed conditions for the asset transfer, and do not have any other recommendations at this stage. Given the scale of the sales activity, we would welcome ongoing engagement and consultation to ensure that any conditions which subsequently come to light can be fully considered.

CHAPTER: Five

Question 8: Do you have any comments on the detail of the proposed draft licence amendments?

We do not have any comments on the detail of the proposed draft licence amendments at this stage.

Should you require any further information with regards to this response then please do not hesitate to contact me at paul.mitchell@sgn.co.uk .

Yours sincerely,

Paul Mitchell
Regulation Manager