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Dear Rupika,

## **National Grid sale of Gas Distribution Network Business – Consultation on regulatory aspects**

National Grid welcomes the opportunity to respond to Ofgem's consultation on the regulatory aspects associated with the National Grid sale of the Gas Distribution Network business.

This response is made on behalf of National Grid Gas Plc representing the views of both National Grid Gas Transmission and National Grid Gas Distribution.

### **Summary**

On November 10<sup>th</sup> 2015 we announced a process to find a buyer for a majority stake in our UK Gas Distribution Business, reaffirmed in our annual results published on May 19<sup>th</sup> 2016. During 2016 we have completed a significant amount of work on a sales process, including stakeholder engagement as we are keen to stress that our commitment to stakeholders remains unchanged by the Gas Distribution sale.

As such, National Grid is responding to Ofgem's consultation following feedback we have received from our own stakeholder consultation on the proposed sale, which was published on February 16<sup>th</sup> 2016. This explained how services that both the Distribution and Transmission regulated businesses participate in will continue to be provided following the UK Gas Distribution sale. This was published on our "Talking Network" sites and sent directly to over 300 Stakeholders.

This consultation document focused on the delivery of the following key services:

- Joint Office of Gas Transporters
- Backstop Meter Provider of Last Resort
- 0800 Gas Emergency Number
- Xoserve

The document outlined the next steps we propose to take in each of the areas in order that the necessary licence changes and transfer of assets to a new company can take place, focusing on minimal change and low-risk options for our stakeholders. During the consultation we felt it was important for our stakeholders to have a say on the proposals outlined in the document and asked

for their viewpoints or concerns so that their specific issues could be addressed. There was also the opportunity for stakeholders to raise any other questions outside the four service areas mentioned.

In the main there was broad support for the proposals made, any issues and questions raised were answered and the feedback is contributing to ongoing activity, including discussions with Ofgem. We have since produced a response document to the consultation, detailing the feedback received and proposed delivery options for the services mentioned when the Gas Distribution sale is complete.

Stakeholders can still raise questions or request further information about the proposed Gas Distribution sale by contacting our dedicated e-mail address:

[box.GDXHaveYourSay@NationalGrid.com](mailto:box.GDXHaveYourSay@NationalGrid.com)

Our responses to the questions raised within your own consultation are set out below:

**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?

**National Grid Response:**

The Backstop Meter Provider of Last Resort ( BMPoLR )obligation currently sits in the gas distribution licence. This service is provided by National Grid Metering Limited on behalf of National Grid Gas plc, with National Grid Metering Limited managing the gas supplier relationship.

We believe National Grid is best placed to retain the BMPoLR obligation by moving it to the Transmission licence. The proposed licence change will have no impact to the services provided to suppliers and the other Gas Transporters as a result of moving this obligation. There will be no disruption to stakeholders as there will be no change to how the service is delivered today, as National Grid's metering activities including the BMPoLR obligation will continue to be provided by National Grid Metering Ltd, which is not part of the National Grid Gas Distribution sale.

By removing the BMPoLR obligation from the new gas distribution company's licence it will also ensure that the licences of all Distribution transporters have the same obligations in respect of metering. The provision of the service through National Grid Metering Ltd ensures that there is no undue preference or undue discrimination in the delivery of this service.

In conclusion, we believe that the National Grid Transmission licence is the best place for the BMPoLR obligation as there will be minimal change for all of its stakeholders.

We have also responded under separate cover on the statutory consultation launched in conjunction with this consultation by Ofgem in relation to the proposed licence changes to facilitate the switch of BMPoLR from the distribution licence to the transmission licence. We are supportive of the proposed licence changes to affect this switch.

**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?

**National Grid Response:**

As outlined in our stakeholder consultation, except for the change to the ownership of shares in Xoserve we expect no changes to the services provided by Xoserve to the industry. The new gas

distribution company will become the owner of the same number of shares representing the four distribution networks currently owned by National Grid Gas Plc.

National Grid and the new gas distribution company will continue to participate in ongoing discussions around the future Xoserve Funding Governance Ownership (FGO) arrangements.

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

**National Grid Response:**

National Grid anticipates no change to the services provided by the Joint Office as a result of the Gas Distribution Sale.

Resourcing of the Joint Office is subject to the wider consideration about the transfer of National Grid staff into the new gas distribution company; however the resourcing of the Joint Office is expected to remain largely unchanged immediately after hive-across.

**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?

**National Grid Response:**

The requirement for the provision of a continuously manned telephone service for reporting gas escapes is set out in Regulation 7 of the Gas Safety (Management) Regulations 1996 (GS(M)R) and National Grid Gas Plc is the duty holder for this service. The 0800 number activity, which consists of a call receipt and management service for reporting gas emergencies is carried out by National Grid Gas Distribution on behalf of the other Gas Distribution Networks (GDN's), Transmission and Independent Gas Transporters (IGT's).

We believe that the duty holder for the 0800 number should remain with the organisation and licence where it is today, which is the gas distribution company. This presents the lowest risk option as the service will continue to be provided by the same staff, systems and procedures that provide the service nationally and on a non-discriminatory basis today.

Retaining the 0800 number obligation within the gas distribution business will ensure the continuity of this service to the same high level, rather than creating a step change within the industry. If the duty were to remain with National Grid Gas Plc after the gas distribution sale, this would require either the creation of a new call centre, or would require a contractual arrangement with the new gas distribution company to provide the service. Both of these options would introduce unnecessary risk.

Importantly there will be no change to the 0800 111 999 number to ensure clarity and continuation of this service.

Subject to the provision of suitable supporting evidence, National Grid and the HSE have agreed that the 0800 duty can effectively remain within the gas distribution company. We are now working through the details of the solution including assembling the right evidence to submit to the HSE. Once we have satisfied the HSE that consumer and public safety is preserved we expect our proposals to be accepted.

In conclusion, we propose that the existing activity is retained by the gas distribution company, which presents no change to the way that the service is provided today and therefore avoids any risk that might arise by changing existing arrangements.

**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?

**National Grid Response:**

We believe the existing compliance requirements set out in Standard Special Condition (SSC) A6 (Conduct of Transportation Business), and A34 (Appointment of Compliance Officer) of the transmission and distribution licences remain fit for purpose. Therefore we do not see it necessary for additional compliance licence conditions to be placed within either the National Grid Transmission licence or the new company's gas distribution licence as a result of the sale.

**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?

**National Grid Response:**

We have no other concerns or issues to raise, however, we would like to reiterate that the proposed transfer of licence and assets and subsequent share sale will not have any significant impact on the services provided both by National Grid and the new gas distribution company.

We are undertaking a large amount of work to ensure both businesses have the assets, licence, resources and contracts they require to hive across to continue to deliver. All operational employees directly employed by National Grid Distribution today will transfer, ensuring the continuation of the appropriate levels of skills and expertise within the business. Support services are being reviewed for both businesses to ensure the suitable level of support service continues to be available.

**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?

**National Grid Response:**

We acknowledge the conditions precedent and conditions subsequent that Ofgem proposes to apply to any asset transfer consent. In particular, we recognise the requirement for the allocation of assets, services and obligations between the two businesses to remain appropriate and do not have a detrimental impact on the consumers of either business.

We are committed to ensuring this allocation is appropriate and preserves the effectiveness of the regulatory frameworks under which both businesses will continue to operate after separation.

In response to Ofgem's proposed condition subsequent in respect of 'other regulatory, commercial or operational changes', we would anticipate that any changes referred to in this condition should be arising directly from the hive across of the National Grid distribution business and not be used as an opportunity to place other conditions upon National Grid or the new gas distribution business unrelated to the sale.

We accept all of the other conditions which Ofgem have proposed to attach to the hive across consent and would welcome further conversations with Ofgem should any additional conditions be suggested as a result of this consultation.

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

We have reviewed the proposed licence drafting attached to the Ofgem consultation and believe that all the proposed changes to licence conditions are appropriate to facilitate the move across of the gas distribution business and ensure that all obligations currently placed upon National Grid continue to be discharged effectively in the future.

We have provided a separate response to your statutory consultation on the changes required to the licence conditions relating to switch of the BMPoLR obligations from the distribution licence to the transmission licence.

I hope that you find this response useful and if you would like to clarify anything in our response please do not hesitate to let either myself or Sue Higgins know.

Yours sincerely

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Mark Ripley  
Director, UK Regulation