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<u>Re: National Grid Transco – Potential sale of network distribution businesses</u>

Corus is a large industrial consumer of natural gas with all offtakes being located on the LDZ's. We therefore welcome the opportunity to comment on the current consultation.

We remain unconvinced of the benefits of an LDZ sale. We see a number of upfront costs involved in facilitating any sale whilst any benefits would accrue over time. Furthermore, one of the major downsides of the current proposal is the loss of central control of the integrated gas system from beach to meter. Molecules of gas do not recognise the distinction between the transmission and distribution network. In our view therefore, the operational control and *responsibility* inherent in the present structure could be put at risk under the current proposals.

Notwithstanding these concerns, our stance on the gateway concept is to err on the side of simplicity. These structures should be suitably designed to protect customers interests, robust enough to ensure non-discrimination but have the flexibility to evolve to include more innovative solutions.

<u>Timetable:</u>

The proposals suggest radical change to the existing regulatory and operational frameworks under an extremely tight timetable. There is a danger with any such proposal of committing to over-complicated and irreversible regime change.

The proposed timetable presupposes the 'path of least resistance' and may therefore underestimate the scale of work required. For example, the scale of legislative change has not been decided. Compressing the timetable increases the likelihood that the wrong solutions will be developed which are later very difficult to untangle.

The introduction of a proper Regulatory Impact Assessment is helpful but we note it has already been compromised by the timetable constraints imposed on it. This was to be presented to the industry as a *fait accompli* in November, before seeking consent from the Gas Authority in same month. We are encouraged by Ofgem's recent offer to reissue the RIA for consultation in October.

<u>Regulatory Impact Assessment</u>

We appreciate interactions between aspects of the proposed framework make Impact Assessment difficult. However, we need assurance that end-users will not suffer as a consequence of any sale and their related reforms.

Ofgem's RIA claims ‘significant benefits’ for customers. The RIA should be a rigorous document which reflect the principles of good regulation including the need for proportionate change and transparency of costs. We are sceptical about Ofgem’s conclusions so far:

- are the benefits derived from price control separation (effective April 2004), or provision of a 3rd party comparator ?

- To what extent are the cost and benefits of balancing, SPAA and exit reform factored into the current calculations? These are ongoing projects and should therefore be excluded from this assessment.

- The value of comparators has been adopted, with the percentage benefit assumptions carried over from Ofgem's "Mergers in the Electricity Industry 2002" document (not attributed). We are not convinced that estimating benefits relative to electricity networks is necessarily appropriate for use with heterogeneous DN's.

- The assessment quantifies only one scenario, while the gateway proposal lists a number of proposals with varying complexity.

- It would be useful to have clarification of how and when efficiencies can clawed back by consumers in the current price control. The benefits calculation should be calculated on an NPV basis but Ofgem also need to clarify their position on the early return of such benefits to customers. Ofgem’s current position on NGT merger benefits and customers having to wait until the price control for example, seems at odds with the immediate benefit resulting from loss of comparator value when electricity DNO’s merge.

Exit Regime:

Ofgem’s exit review is predicated on the alleged cross subsidy of interruptible by firm users and Transco over contracting for interruption. We await the detailed analysis to support these conclusions. Corus have long held the view that the current system discriminates by failing to make allowance of the different risks and actual levels of interruption and creates a cross subsidy in favour of firm as a result of the lack of cost reflectivity in the underlying commodity/capacity split.

We therefore support the opportunity to development a matrix of alternatives with exercise and options fees which could build on present arrangements. Any final proposal should be equally accessible to large and small users and not necessarily reflected by their location on the NTS or a DN.

Yours sincerely

Alison Meldrum