ScottishPower

energy management

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Office of Gas and Electricity Markets
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14 October 2003

Dear Kyran,

National Grid Transco – Potential sale of network distribution businesses

Thank you for allowing us to respond to this consultation document. As you are aware Scottish Power is an NGT customer, a gas consumer as well as a gas shipper and supplier and we are responding on this basis.

We appreciate the role of Ofgem, the HSE and other bodies in ensuring that the proposals do not adversely affect the operation of the system or impose significant additional costs on the industry.

A key concern must be the impact that the proposals have on customers, so we are keenly interested in how the costs and benefits of this major change to the industry will be apportioned. We note that Ofgem have started the Regulatory Impact Assessment process, although we believe there is still much to be done to get reliable and crucial information on costs and benefits included. In particular there is a concern that the benefits associated with the sale might be achievable as a result of other reforms which are already planned and therefore not directly attributable to this change..

We are also concerned that this reform should be implemented to an appropriate timescale, to allow the proper resolution of key issues outlined in this letter. A measured approach will ensure that any benefits are realised. The industry will need to commit significant resources in support of these proposals, the requirement to construct the appropriate regulatory and commercial framework across a wide range of activities and systems will test the timescales suggested.

We believe that governance arrangements across the industry need to be robust and that this requirement extends to any restructuring undertaken in support of divestment of LDZs as well as the arrangements following any sale.

In addition to the general concerns outlined above the following are our thoughts on some of the further areas for consultation.

Regulation

Separation Issues
Transco will be operating the DNs in their entirety as separate units from April 2004. It is therefore critical that the arrangements ensure a consistent and transparent approach across the industry, covering both retained DNs (RDNs) and independently owned networks (iDNs)

Licence Arrangements
We believe that a number of new licence conditions will be required regardless of which option is chosen. Our preference would be to establish separate distribution and transmission Licences. We envisage that within this arrangement iGTs would be catered for and that the Licence provision put in place would cover arrangements for a Licence holder to be an Independent Network Operator and an Embedded Distribution Business (iGT). There would by necessity be a requirement to ensure that the Licence modification process would need to take into account that a singe company may become a multiple licence holder.

Network Code Arrangements
There is the opportunity to consider the adoption of one uniform network code to cover all networks as this would overcome of the problems associated with separate governance. Should there be separate codes, we would strongly recommend that there should be a common Distribution Network Code. Adopting a common code and/or working arrangements would simplify the implementation of change across disparate networks, stimulating best practice and reducing the administrative overhead associated with managing many interfaces.

NTS/DN Interface
A review of the existing and potential offtake agreement between the NTS and DNs (at present the LDZ offtakes) will be a useful consequence of the changes. We foresee need for an agreement in place for each of these offtakes regardless of ownership. The arrangements contained within it should be comprehensive and transparent, with the ability of industry to consult on and make changes.

Most of the gas lost through shrinkage occurs in the DNs. There is presently a uniform shrinkage factor across the networks and we believe the same kind of arrangement could operate under varied ownership.

Exit & Interruptions Regime

There has been a great deal of work done in this area by the industry. We are happy to be involved in the development of proposals already put forward. We believe that arrangements can be put in place which will determine the true value of interruption for different types of site, and that this will relate to the benefit provided to the system. We agree that a customer should be able to contract directly with the system operator for the provision of these types of flexibility services.

We believe that the procedures in place for dealing with flexible services within the DNs should be uniform, and bear some relationship to the arrangements on the NTS.

Gas Balancing

We would prefer the least cost option, but also the one which operated more efficiently. It would be better if the system were to be governed by a single system operator rather than multiples. There are clear benefits in balancing the entire system, and this should also minimise the impact on current trading arrangements and activity at the NBP.

We believe that there is still work to be done in developing the proposals for how the new models will work. We have concerns over the role of the system operator and NGT and the DN owner in the trading market, linepack services and the various incentives which could be applied. All sorts of models for operation of the gas balancing network should be considered where now we have a starting point. The costs of these developments for industry players is likely to be considerable.

Supply Point Administration

It has been envisaged for some time that SPA services could be carried out by an agency and indeed this has been a key driver in the development of SPAA. Scottish Power has actively participated in and has supported the work done surrounding the introduction of SPAA, which would include all Gas Transporters.

Scottish Power is concerned that the development of the agent agreement and subsequently the development of SPAA may be held up by proposals to allow Suppliers to fully fund this arrangement and the SPA service. We believe instead that agreement should be reached on the introduction of SPAA, with Transco continuing to fund SPA in the interim until alternative market arrangements are in place.

There are obvious advantages to ensuring that there are common processes, which should minimise disruption costs incurred through the sell off of the Distribution Businesses.

I hope that you find these comments useful. Should you have any queries on the points raised, please feel free to contact us.

Yours Sincerely,

John A Campbell
MANAGING DIRECTOR