

## Gas distribution network sale

**National Grid Transco (NGT), the owner of Britain's gas pipeline network, has decided to sell four of its low pressure distribution networks (DNs). Ofgem's statutory role has been to ensure that in the event of any sale, customers' interests are protected.**

### Ofgem's decision

Ofgem has conditionally approved the sale of four DNs as it is satisfied that customers' interests can be safeguarded. Ofgem has also determined the framework for the regulatory, commercial and operational arrangements necessary to protect the interests of customers. The development of detailed licensing and industry code arrangements is now underway.

The sale also has been approved by the Secretary of State for Trade and Industry, but still needs clearance from the Health and Safety Executive (HSE).

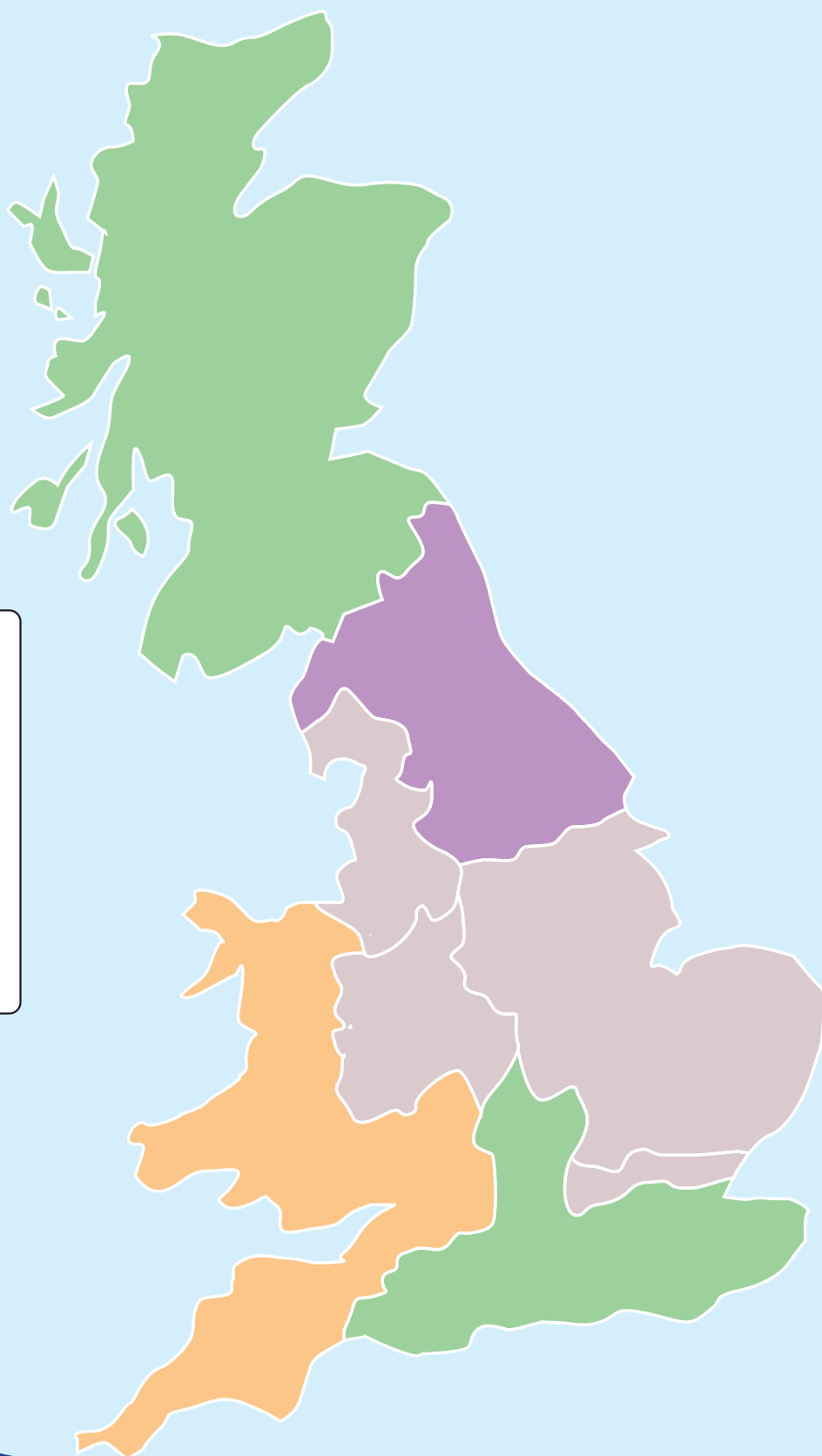
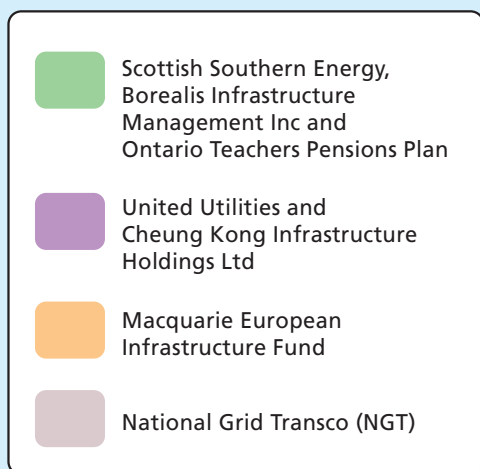
### Benefits for customers

Separate ownership and management of the gas distribution networks will enable Ofgem to compare and contrast the performance of all gas distribution companies and set tougher price controls.

Detailed cost benefit analysis from Ofgem has identified potential benefits to customers of around **£225 million** over 18 years. It is expected that around 95 per cent of these savings will come through lower distribution charges, which take effect from 2008 when the next price control starts.

In electricity distribution, the ability to compare different companies' performance has enabled Ofgem to halve the costs of distribution in real terms since privatisation.

## Who has bought the distribution networks?



## New industry structure

The sale of four gas DNs represents the biggest change to the way the gas industry is structured since privatisation. This has important implications for the companies, who directly use the gas network to supply gas to householders and businesses.

It creates four independent networks, which will have to interact with each other and NGT's high pressure National Transmission System (NTS) to ensure the continued smooth

running of the gas system. Ofgem has, therefore, worked very closely with the industry to draw up new arrangements, which will allow this change to take place in the most efficient and cost-effective way possible, so as to protect the interests of customers.

## Defining roles

Ofgem has clearly defined the roles of the new independent DNs and how they interact with the NTS. Ofgem's priority in setting these roles has been to ensure that security of supply is not diminished by the sale. It has also sought to ensure

that all arrangements create a fair and level playing field between the independent networks and NGT's retained DNs and its NTS system.

### Independent and NGT-owned DN operators will be responsible for:

- investing and maintaining their networks
- operating their networks on a day-to-day basis, and
- responding to gas emergencies on their networks.

### NGT will remain responsible for:

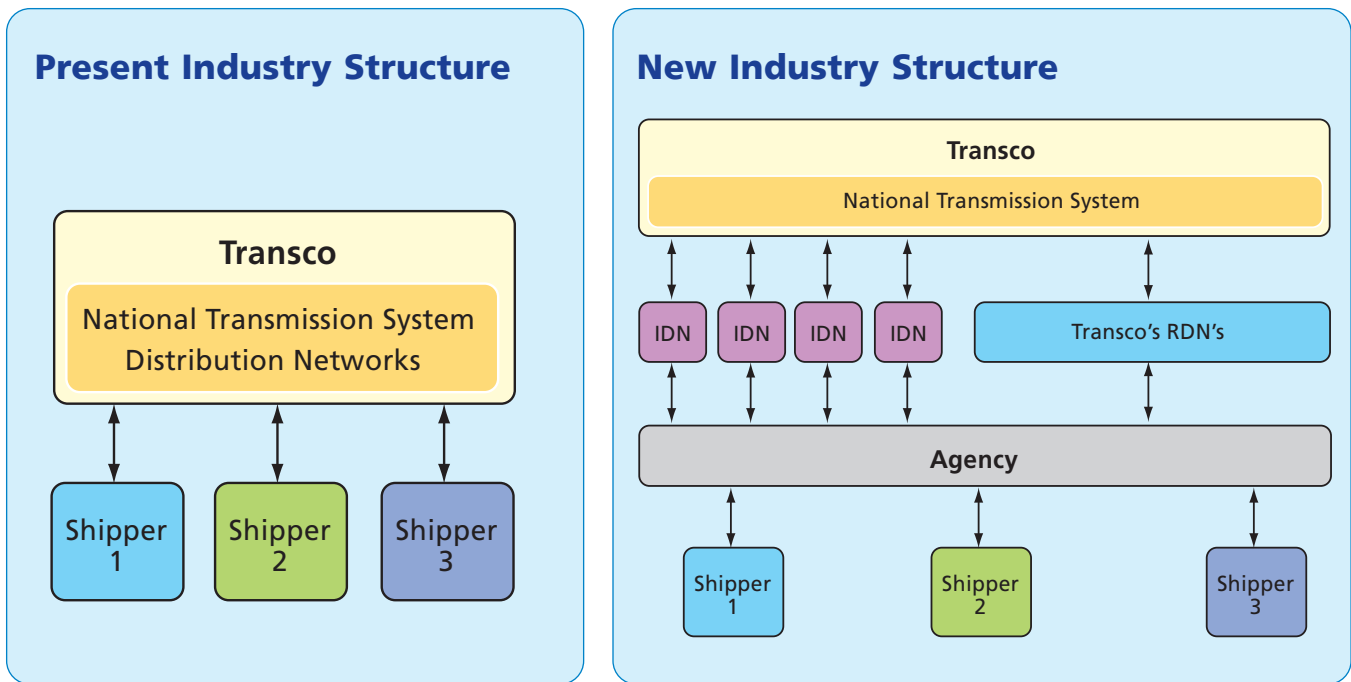
- the maintenance, investment and operation of the NTS system, and
- will continue to buy or sell gas to keep the whole GB gas network in balance.

## Gas safety

The gas emergency number customers ring in the event of a gas leak will not change and will still be centrally administered. The only difference customers will see is that the engineer who responds to their call in the independent DN regions will not be a Transco employee. HSE regulations

set out the training requirements for engineers in the gas industry and the new independent network owners will have to conform to these regulations in the same way NGT does.

## Reducing complexity and fragmentation



To reduce unnecessary complexity and prevent fragmentation, NGT has proposed creating a central agency which will run the processes needed to support gas competition, and administer the collection of transportation bills on behalf of all DN owners and the NTS.

Without an agency, shippers, who bring gas onto the pipeline network, would face increased complexity. For example, in order to allow customers to switch supplier, shippers would have to deal with potentially five customer transfer processes for each of the five DN owners.

## Taking gas from the pipeline system

From September 2005, all DNs and large commercial gas users, through their shippers, will purchase the right to take gas off the NTS by booking capacity on the network.

This change is necessary to ensure that there is no discrimination by NGT in favour of its retained networks and that other DNs and large users have equal access to the NTS. Capacity bookings will also help send NGT price signals for future investment on the NTS.

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