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Dear Sonia

NGT response to Final Proposals for Interim Incentives and Formal consultation under section 23 of the Gas Act 1986 (April 2005)

We welcome the opportunity to respond to Ofgem's, Final Proposals for Interim Incentives and Formal consultation under section 23 of the Gas Act 1986. The response is written on behalf of

- Transco (as the holder of two relevant Gas Transporter ("GT") licences (i.e. the GT licence in respect of the National Transmission System ("NTS") business and the GT licence in respect of the retained DN ("RDN") business));
- Blackwater SC A Limited (as the holder of the GT licence relating to the Scotland DN);
- Blackwater 2 Limited (as the holder of the GT licence relating to the Wales & West DN),
- Blackwater F Limited (as the holder of the GT licence relating to the North of England DN), and
- Blackwater G Limited (as the holder of the GT licence relating to the South of England DN),

and sets out our overall support to the proposals contained in the consultation document. We recognise that formal consent to the section 23 Notice under the Gas Act from the relevant GT licensees, will be required following the consultation process in order for the modifications in question to be implemented..

The response is structured to cover the main elements of the consultation document, namely:

- ◆ Ofgem's final proposals for the interim incentives scheme that will be in place in respect of the NTS and DNs for the period to 30 September 2008; and
- ◆ Further licence changes to address respondents' views and issues identified following Ofgem's licence consultation published on 14 February 2005.

Ofgem's final proposals for the interim incentives scheme

As detailed in our responses to previous consultations we are supportive of Ofgem's general approach of retaining most aspects of the current NTS exit incentive scheme. This would seem wholly consistent with the proposals that the interim offtake arrangements should, to a large extent, be based upon existing arrangements. We are pleased that Ofgem have taken on board some of the arguments made in response to the consultation and have reflected them in the final incentive proposals.

Clearly we are disappointed in the areas where Ofgem have rejected our arguments made in relation to both the NTS and DN incentives. In particular we are disappointed at the level of exposure that the NTS is exposed to as a result of an unconstrained release of capacity (flat and flexible). Despite our disappointment we will ultimately be prepared to accept the NTS and DN interim incentive arrangements in order for the process of the sale of the distribution businesses to proceed.

We have noticed a slight typographical error within the drafting of Special Condition C14, within the NTS exit capacity buy-back and interruption incentive information reporting. The term "ExBBC_{d,t}" has the description "Entry capacity buy-back costs" instead of "Exit capacity buy-back costs". We feel that this is not a material change, so could be corrected within the Section 23 direction notice.

Further licence changes to the licence consultation published on 14 February

We are supportive of the changes detailed in the consultation document in relation to the area detailed above.

Summary

In relation to both the interim incentive proposals and the further licence changes to the licence consultation published on 14 February we are generally supportive of Ofgem's proposals and would therefore envisage formal consent to the proposals to be forthcoming from the relevant licensees in due course subject to the outcome of the statutory consultation process.

Yours sincerely

by e-mail

Chris Train

| **Director – Network Sales.**