

Ref: AW/DM/009

20 December 2005

Mark Feather
Office of Gas and Electricity Markets
9 Millbank
London
SW1P 3GE

Dear Mark

Final proposals on transitional incentive schemes and formal licence consultation under section 23 of the Gas Act 1986 and paragraph 3(a) of Standard Special Condition A2

Northern Gas Networks welcomes the opportunity to comment on the final proposals. Our views should be read in conjunction with our responses to National Grid in respect of the re-consultation on the IExCR and SC4B statements which is attached.

NGN recognises the reasons behind Ofgem's exclusion of DN interruptions from the transitional incentives. However, if the transitional arrangements extend beyond the currently envisaged two years, then the interruptions element of the existing interim regime should be re-introduced in some form to provide the required full range of demand side provisions utilised by DNs.

NGN remains concerned about the potential for a double penalty under the provisions of the DN ARCA and the incentive arrangements. NGN's view is that DN ARCAs based on generic load growth (in part or whole) are not appropriate. In its consultation paper, Ofgem states that "...Dns could enter into contractual arrangements with large connecting parties such that, if the connecting party does not require the capacity that it has requested, the DN will be able to back off any resulting liability incurred under the DN ARCA". However, a DN cannot back off such a liability for general load growth, subsequently not booked due to (say) an economic downturn. NGN is very uncomfortable with this provision and the level of risk a DN is expected to carry in such situations.

National Grid's IExCR statement provides for a DN ARCA at any offtake point for an additional request for 20 million therms per annum, irrespective of the make up of this request. Therefore a request of 20 million therms based on a DNs growth forecast of (say) 8 million specific load requirement and 12 million generic load growth would still qualify for a DN ARCA. However only 40% of any ARCA commitment could be backed off to the DN and thus the DN is inappropriately exposed to charges in economic growth whereas National Grid NTS is fully protected.

Contd...

There is a fundamental difference between customers directly connected to the NTS and DN offtakes as the direct connects are single customers that drive specific reinforcement whereas the DN offtake requirement is driven by multiple customers. Only where a specific identifiable connection drives specific reinforcement (which is analogous with DC connects) should DN ARCAs be required.

NGN thanks Ofgem for revising Northern DN's initial targets. However in comparison to the figures requested by NGN and agreed by National Grid in 2005 for 2009/10 and 2010/11, NGN is being asked to provide more flex in NO1 and has been given insufficient flex in NE1 and NE2. NGN has requested capacity in line with its 1 in 20 obligation. The consultation states "...Should the relevant DN need to book a level of NTS offtake rights in excess of its incentive target in order to meet its 1 in 20 obligation, then the DN must book the additional amount to ensure such compliance". In doing so the DN will by definition incur a liability. NGN remains concerned at the difference between its requirement and the proposed incentive allowance.

It is important that Ofgem ensures full independence and commercial arrangements are in place between the RDNs and the NTS so that the RDNs and the IDNs are treated on an equal basis.

NGN's view on Income Adjusting Events (IAE) will be provided separately in response to Ofgem's open letter of 14 December seeking views on the three options outlined.

Please do not hesitate to contact me should you wish to discuss any aspect of NGN's response.

Yours sincerely

A handwritten signature in black ink, appearing to read "Alex Wiseman". The signature is fluid and cursive, with a long horizontal stroke at the end.

Alex Wiseman
Regulation Director