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value to customers*

National Grid NTS, shippers / suppliers, NTS
direct connects, gas distribution network
operators and other interested parties

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Dear Colleague,

Pro forma questionnaire on the cost impacts of enduring gas offtake reform: gas transporters and the Agency

As you are aware, Ofgem intends to issue a preliminary Impact Assessment (IA) in March 2006 regarding the costs and benefits of the proposed introduction of NTS enduring offtake arrangements. This preliminary IA will compare the status quo (as represented by the transitional arrangements)¹ to a number of high level options for the enduring offtake arrangements as outlined in Ofgem's second consultation in the Transmission Price Control Review (TPCR) process, issued in December 2005².

The results of this preliminary IA will be used to inform an assessment of Ofgem's initial preferred high level option for the enduring offtake arrangements from the range of options set out in the December 2005 consultation document.

Ofgem notes that the options for offtake arrangements are defined at a high level at this stage. However, in Ofgem's view, it is appropriate to perform a preliminary impact assessment at this stage to inform the direction of further policy development. It is important to note, however that this is only intended to be an initial impact assessment, and Ofgem intends to conduct a further impact assessment of a more detailed model, following the publication of the TPCR consultation planned for March 2006.

¹ *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, Ofgem, November 2005.*

² *Transmission Price Control Review Second Consultation, Ofgem, December 2005, 277/05*

In order to inform the completion of the preliminary IA, Ofgem is issuing a pro forma questionnaire to gas transporters and the Agency to establish the efficient level of costs associated with each of the high level options for the reform of NTS offtake arrangements under consideration. To this end, please find attached an outline of the pro forma and related guidance document which provides advice regarding the way in which the pro forma should be completed. In addition, to further assist in the completion of the pro forma an assumptions document is also provided. This document sets out Ofgem's initial high level view of the implications of the proposed models for offtake arrangements for industry participants.

Note that a consistent pro forma, and set of guidance documentation have also been issued to gas shippers and Transmission Connected Customers (TCCs), in order to understand the cost implications of the proposals for these industry participants.

It is important to note that the documents referred to in this letter are provided on an informal basis and should not be treated as binding on the Authority. Nothing in the documentation is to be construed as granting any rights or imposing any obligations on the Authority, and the Authority's discretion in this matter will not be fettered by any statement made in this correspondence or the related documentation.

We would be grateful if you could return your response to the attached pro forma by close of business on 9 February 2006. Please be assured that all responses will be treated as confidential.

If you have any questions regarding this request please contact Matteo Guarnerio on 020 7901 7493.

Yours sincerely

Mark Feather
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