

Mark Feather
Associate Director, Networks
Ofgem
9 Millbank
London
SW1P 3GE

Phil Lawton
Distribution Regulation Manager
Phil.Lawton@ngtuk.com
Direct tel +44 (0)1926 656448
Direct fax +44 (0)1926 656520

www.nationalgrid.com

24 January 2006

Dear Mark,

Open letter on Income Adjusting Events thresholds for gas distribution networks

Thank you for your letter of 14 December inviting comments on the appropriate threshold for Income Adjusting Events (IAE) during the transitional period. This response is sent on behalf of National Grid's distribution business.

As you note, under the transitional arrangements DNs are exposed to a price risk if the volumes of NTS exit rights requested differs from their volumetric target. Given that DNs have no control over this risk (other than by making bookings exactly equal to the targets and thereby negating the impact of the scheme) we believe that a figure lower than the current IAE value of £2m would be appropriate. Furthermore, we believe that the appropriate value for an IAE threshold is linked to a balance between limiting the absolute financial risk that the company is exposed to on the one hand and the cost of processing claims on the other. On this basis we do not support the use of a proportional threshold that would provide some participants with a much greater level of protection than others. Accordingly, of the three options proposed, we support Option 2, a £1 million threshold.

The letter also seeks views on the appropriate time frame under which the IAE should apply. Rather than setting a cut off date or event such that the IAE provisions would end with the introduction of the enduring arrangements, we support the suggestion that the IAE provisions are reviewed as part of the development of the enduring Offtake arrangements.

If you have any queries, or would like to discuss this response, please do not hesitate to contact me.

Yours sincerely,

Phil Lawton