

Ref: AW/DM/025

28th April 2006

Robert Hull
Director, Transmission
Office of Gas and Electricity Markets
9 Millbank
London
SW1P 3GE

Dear Robert

Transmission Price Control Review Third Consultation

I have pleasure in enclosing Northern Gas Network Limited's (NGN's) response to the TPCR third consultation.

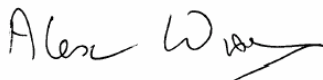
We have limited our response to questions relevant to a Gas Distribution Network asked in the gas offtake technical details appendix.

NGN will continue to contribute to the development of the methodology for offtake reform through the Enduring Offtake Working Group and is responding separately to the NTS Gas Offtake Arrangement Strawman model.

Clearly it is essential that the distribution price control is consistent with decisions made as part of the Transmission Review. Distribution Networks will need sufficient time to reflect the implications of offtake reform within their price control business plan submissions.

If you have any questions regarding this submission then please don't hesitate to contact me.

Yours sincerely



Alex Wiseman
Regulation Director

Cc: Joanna Whittington

Transmission Price Control 2007 – 2012 :
Third Consultation – Supplementary Appendices

Question A12.1 Do you agree that for the period from 1 April 2007 to 30 September 2010, baselines should be at the same level and degree of aggregation as during the enduring period (i.e., nodal and based upon practical maximum physical capacity)?

NGN agrees that baseline should be nodal and at practical maximum physical capability in the transitional period. We are unconvinced as to the practical application of any flexibility product at this nodal level. Providing zonal flexibility (group of offtakes, exit zone or LDZ level) appears to offer improved options for providing the flexibility required without being artificially constrained by nodal baselines.

Question A12.10 Do you agree that our emphasis on user commitment is appropriate?

NGN shares the view that a user commitment model has the potential to signal more accurate investment signals to National Grid, however we believe certain elements of the model inappropriately share the burden of risk. The current model suggests that users will be required to underwrite capacity requests for any incremental bookings, even if no additional investment is required from National Grid. In many instances the capacity infrastructure will have been in place for many years and will have been paid for already by users. Such underwriting is inappropriate and has the potential to reward National Grid twice for utilisation of the same asset.

Similarly, we believe the absence of any tolerance for incremental requests (without such a required underwriting) to be wrong. A small increase (to be defined) should not be the automatic trigger for the required underwriting currently anticipated.

Question A12.11 Do you agree with our assessment of the high level options in the Second Consultation?

(a) and (b) Do you agree that NTS exit capacity product(s) and baselines should be specified on a nodal basis?

Flat capacity products should be defined on a nodal basis, however we view the provision of flexibility products to be better specified on a zonal basis.

(c) Do you agree that NGG NTS should be subject to a substitution obligation?

Given that substitution is an existing practice which benefits all parties, we believe that it is appropriate to place a licence obligation on National Grid in this area.

Question A 12.13 Do you agree with our minded to position with regards to compliance with the 1 in 20 obligation?

We welcome the clarification set out in the consultation with respect to National Grid's requirement to satisfy GDN's 1 in 20 obligations by sizing the NTS accordingly, based on its users' requirements.

Question A12.14 Do you believe that there should be any other pre-conditions before incremental investment is remunerated?

National Grid's remuneration for investment should be based on costs incurred. If it is incurring costs over (say) a three year period then it should be remunerated at the next available opportunity following each year's investment expenditure.

Question A12.15 Do you agree that the level of baselines should be determined in accordance with the practical maximum physical capacity of the network?

NGN sees merit in this being the level chosen as it most accurately reflects the whole picture of available capacity across the network. The establishment of the baselines based on these criteria is a reasonably subjective measure and we would expect individual Network's analysis and views to be considered by Ofgem before such baselines were sanctioned. NGN is undertaking this assessment and will engage with National Grid and Ofgem to gain a better understanding of any differences between the published baselines and those assessed by NGN.

Question A12.16 Do you agree that baselines should be static throughout the price control period?

NGN sees little merit in constraining all baselines throughout the whole price control period if there are substantive changes to the configuration of the network which alter the baselines of one or more nodes. For example, if a new connection is introduced mid way through a 5 year period there is every chance that nodes in its vicinity may need revising.

Should substitution across nodes become an enduring substitution, based on changing demand patterns, then there appears to be merit in amending such baselines to reflect the changing environment required by users.

Question A12.17 Do you agree that the greater than 15 day interruptions incentive should be retained?

Interruption is one of the tools by which any transporter can manage its demand provision, therefore we believe this incentive should be retained unchanged throughout the transitional period as indicated.

Question A12.23 Do you agree that implementation of the 'Option 2A' approach to payment flows should be postponed such that it coincides with implementation of the enduring regime?

There is still significant detail and complexity to consider within the scope of an enduring regime. Consequently, the subsequent revisions to GDN charging systems are likely to be considerable. NGN therefore supports the implementation of any revised payment flow model to be coincident with the introduction of the enduring regime.

Paragraph 1.161

This paragraph suggests that no pass through of costs incurred by GTs and the Agency regarding compliance with GT licence obligations to implement offtake arrangements will be permitted. NGN can see no rationale for not permitting these costs and we expect the full cost of implementing offtake arrangements to be allowed as part of the Price Control Review.