

Attention all:
Gas Transporters, Gas Shippers, Customers,
Market Participants and Interested Parties

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Gas Quality – Scenario Development Work Stream

This letter follows an open letter Ofgem published on 26 September 2006 inviting interested parties to participate in our newly established Gas Quality Work Streams¹. These two groups were created as an outcome of the Gas Quality workshop Ofgem hosted in London on 13 September 2006, where it was agreed that Ofgem would facilitate further work in the area of gas quality by establishing work streams.

To address and take forward further analysis on the variety of issues raised at the workshop we have established a **Gas Quality Scenario Development Work Stream** and a **Gas Quality Economic Regulation Work Stream**. The objectives of each of these work streams are described briefly below.

Gas Quality - Scenario Development Work Stream

This work stream will examine and assess a range of scenarios which capture the potential impact of specific gas quality constraints on the supply of gas to the GB market under various circumstances. The key output of this work stream will be a published document to all market participants which can be used in considering whether investment in blending or ballasting is economic and efficient.

I am pleased to confirm that the first meeting of this work stream is scheduled to take place on 23 October 2006 from 2-4pm. This meeting will be hosted at Ofgem's London offices, at 9 Millbank, SW1P 3GE. If you would like to participate in this work stream, please contact wholesale.markets@ofgem.gov.uk. Thank you to those individuals who have already registered their interest.

In order to facilitate the development of these scenarios, Ofgem will provide work stream members with a few initial high-level options for consideration that will capture the potential impact on GB gas supplies under a variety of supply circumstances. These scenarios will be developed in collaboration with Fluxys, the Belgium System Operator, and National Grid.

¹http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/16864_172_06.pdf?wtfrom=/ofgem/work/index.jsp§ion=/areasofwork/wholesalemarketmonitoring

These scenarios will primarily be used as a tool to stimulate discussion and debate amongst work stream members, and are not intended to steer the direction of the work stream. Ofgem will be looking for work stream members to contribute their own knowledge and expertise to ensure the scenarios under consideration are as realistic, informed and useful as possible.

Gas Quality - Economic Regulation Work Stream

Ofgem has already established that the guiding principle should be of cost targeting to ensure that those parties that bring gas to the GB market requiring treatment face these costs. This work stream will examine a range of options, guided by this principle, to identify the most appropriate regulatory framework to apply to any blending, ballasting or other services that are developed to remedy gas quality issues.

We anticipate that this work stream will use the outcome of discussions at the scenario development work stream as a basis to examine potential economic regulation issues. Dates for this work stream will be announced shortly after the scenario development work stream and individuals are welcome to participate in both work streams if they wish to do so. As there is limited capacity, please email wholesale.markets@ofgem.gov.uk to register your early interest.

Please note that all correspondence between Ofgem and industry participants regarding these gas quality work streams will be posted at the following locations on Ofgem's website:

- Scenario development work stream
<http://www.ofgem.gov.uk/ofgem/work/index.jsp?section=/areasofwork/wholesalemarketmonitoring/gasqualityscenariodev>; and
- Economic regulation work stream
<http://www.ofgem.gov.uk/ofgem/work/index.jsp?section=/areasofwork/wholesalemarketmonitoring/gasqualityeconomicreg>

We look forward to continuing to work with industry to build on the valuable discussions at the Gas Quality workshop to take this important issue forward.

Yours sincerely



Sonia Brown
Director, Wholesale Markets