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National Grid Gas NTS,
gas distribution networks,
users of the gas transmission network,
consumer groups and
other interested parties

Direct Dial: 0207 901 7437
Email: mark.feather@ofgem.gov.uk

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Dear Colleague

NTS gas offtake: Proposals for licence modification drafting

In September 2006, we published our Transmission Price Control Review (TPCR): Updated Proposals¹ for the amount of revenue that National Grid Gas plc's National Transmission System business (NGG NTS) should be allowed to recover from its customers for the five year period from 1 April 2007 onwards. The Updated Proposals also addressed the associated incentives that we believe that NGG NTS should face over the same period. We will publish our Final Proposals in this regard in December 2006, but in order to ensure the timely implementation of such Final Proposals on 1 April 2007, it is necessary to commence consideration of the licence modifications that are likely to be required.

As proposed in Ofgem's Updated Proposals, Ofgem will shortly publish its first informal consultation on proposed modifications to the licences for both gas and electricity transmission businesses. Certain proposed modifications to the NGG NTS licence are contingent upon the potential introduction of enduring NTS offtake arrangements from 1 October 2010. The development of these offtake arrangements is being progressed separately through the Uniform Network Code (UNC) modification process. As part of this process, NGG NTS has raised UNC Modification Proposal 0116 (Reform of the NTS Offtake Arrangements). In addition, three alternative modification proposals have been raised. On 12 October, the UNC Modification Panel voted that Modification Proposal 0116 and the associated alternative modification proposals should be released for consultation on 20 October 2006 for a period of five weeks, ending on 24 November 2006.

In order to allow joint consideration by industry participants of Modification Proposal 0116 and the proposed licence modifications that could accompany such enduring offtake reform, we have decided that it is appropriate to provide our proposed licence modification drafting in relation to gas offtake in advance of the publication of our informal licence consultation. We attach the proposed draft licence modifications that relate to gas offtake together with an explanatory note outlining the licence

¹ TPCR 2007-2012 Updated Proposals, September 2006 (Ref No. 170/06)
TPCR 2007-2012 Updated Proposals, Appendices, September 2006 (Ref No. 170/06a)

modifications proposed. We would welcome any comments that you may have on this proposed drafting by 24 November 2006.

Yours sincerely,

Mark Feather
Associate Director, Transmission