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Dear Indra

New entry arrangements for connecting to the gas distribution network – Enduring options for treatment of DN embedded entry

Thank-you for the opportunity to provide a further response in relation to this consultation.

National Grid Gas NTS (NGG NTS) has already responded in our letter of 21 July 2006 to the specific issue of Holford's access to the system. In that response we articulated the rationale for a pragmatic approach to securing Holford's ability to be able to function as a storage facility within the relevant DN.

NGG NTS was involved in developing the recommended approach that now features in UNC Modification Proposal 0105 "Commercial Arrangements for combined DN Exit / Entry Points". NGG NTS, in the context of Holford's specific requirements, advocates implementation to ensure Holford's timely access to the system without all of the implications associated with contemplating a modification to NGG NTS's licence to deem Holford an NTS Entry Point. Specifically this proposal, if implemented would provide "access to the NBP" for gas emanating from the Holford facility.

Entry into the DN also occurs in respect of other gas flows at the Hatfield Moor, Wytch Farm locations and some of the LNG facilities. The gas flows associated with these arrangements are small, and at current levels probably no more than 1% of system throughput. Additionally these arrangements satisfy stakeholder requirements. NGG NTS does not consider there is an immediate requirement to change these arrangements.

NGG NTS recognises that there may be potential for additional DN embedded entry flows and recognises that granting system access might be anticipated to confer security of supply benefits.

However additional DN embedded entry may raise some significant policy issues, both from a physical and a commercial perspective. For example from a physical perspective additional DN embedded entry flows may have indirect impacts on the NTS. In extremis such flows might generate a requirement for gas flows onto the NTS, turning some current NTS offtakes into bi-directional points. Even where the DN embedded entry flows are insufficient to cause reverse flows at current NTS offtakes there may be consequential impacts on NTS offtake patterns and profiles. From a commercial perspective other issues include whether such gas flows should have "access to the NBP", and if so what market access (rather than transportation access) charges might be appropriate and the potential treatment of unexpected dly high NTS shrinkage losses arising from low CV DN embedded

entry. Furthermore NGG NTS believes that the commercial framework needs to be established to mitigate the risk of inefficient bypass of the NTS.

Whilst gas flows associated with new DN embedded entry flows are envisaged to be small NGG NTS would propose that the currently proposed interim Holford treatment might provide a model for other new DN embedded entry points. This could afford the opportunity for the "contractual approach" to evolve in response to connectees requests for service from the appropriate DN.

NGG NTS would advocate that, at this point in time, it may be difficult to define a fully parameterised framework for DN embedded entry and that therefore a DN Licence based approach where DNs have general obligations to work with potential connectees, the NTS and wider stakeholders to develop the access arrangements would be appropriate. NGG NTS would support a consultation based approach to enable a "case by case" development of a framework that might be considered economic and efficient having due regard to the particularly circumstances that might prevail in respect of each potential connection. Such an approach would enable the evolution of a framework that best serves the widest range of stakeholders.

The framework should ensure that DN embedded entry should be promoted where it is economical sensible and efficient recognising the potential for improved gas supply security in the context of new gas sources and/or storage facilities. However the precise details of the commercial framework should be such that they do not impose any inappropriate costs that would need to be borne other than by the connectees or those using their services. Additionally the regime should ensure no adverse redistributive effects. In short the commercial arrangements should ensure that the provision of embedded DN entry should confer an aggregate benefit for gas consumers without any material distortions or cross subsidies.

As a general principle NTS does not believe that DN embedded entry should necessarily require NTS entry capacity. Hence we support the "contractual approach" as described in the *New entry arrangements for connecting to the gas distribution network* consultation document. In the context of access to the total system we believe that NTS entry capacity should only be necessary where users have either direct physical access to the NTS or where the indirect impact of the DN embedded entry might have an impact that has a material impact on NTS gas flows, and therefore the costs of the provision of NTS transmission access.

NGG NTS look forward to participating in the consideration of how DN embedded entry can most appropriately be treated within the commercial framework.

Yours sincerely

Nigel Sisman