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Your Reference: 1/07

Dear Indra

1/07 Entry arrangements for connecting to the gas distribution network

Thank-you for the opportunity to respond to the above Ofgem document.

National Grid Gas NTS (NGG NTS) responded in our letter of 21 July 2006 to the specific issue of Holford's access to the system. We are pleased that the necessary changes have been made to the Network Code to permit a pragmatic approach to securing Holford's ability to be able to function as a storage facility within the relevant DN.

In principle NGG NTS continues to believe DN embedded entry should be primarily a contractual matter for DNs and their connectees.

However it is important to recognise that DN embedded entry will have an impact on flows that will occur at the NTS/DN interface and hence DN embedded entry should be expected to have indirect impacts on the NTS. Examples of potential impacts might include

- Amended requirements for NTS exit capacity
- Risks of inefficient NTS by-pass
- Risks of FWA CV energy loss increases

The above could, under some circumstances, have significant impacts on the NTS and customers.

We therefore believe that there should be a high degree of transparency about the development of individual DN embedded entry contract arrangements. Approaches adopted should be proportionate having regard to the size and potential impacts of any new connections on both DN networks and the NTS.

Additional we believe that treatment of some commercial aspects of the proposal need to be carefully considered, for example the concept of access to the NBP. This is achieved via allowing gas allocations at DN embedded entry to be treated as credits in shipper's daily imbalance accounts. Given the physical consequences of DN embedded entry it might be appropriate to consider whether such connections should automatically be granted access to the NBP; it is by no means certain that such arrangements would afford benefits to the generality of customers. However if the decision on this is in the negative then it needs to be recognised that the any sale of embedded entry services via DN embedded owner or operator might be of a lower value given the restricted market for such

service. Depending upon the scale and expectations of growth in DN embedded entry then it might be appropriate to contemplate a "market access" charge for UK gas market flows that do not attract NTS commodity charges.

In summary we support Ofgem's bi-lateral contractual approach for DN embedded entry but request a high degree of transparency of potential connections before the arrangements are finalised so that the full implications upon the NTS and the generality of customers so that proportionate approaches are introduced.

Please do not hesitate to contact me if you wish to further discuss any aspect of this reponse or more general aspects associated with the DN embedded entry issue.

Yours sincerely

Nigel Sisman