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value for all customers*

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20 February 2007

Dear Chris,

**Gas Transmission Transportation Charging Methodology modification proposal
GCM 01: Alternative methodologies for determination of NTS entry and exit
capacity prices**

On 25 January 2007 National Grid Gas (NGG) pursuant to its National Transmission System (NTS) licence submitted to the Authority a conclusions report¹ on its proposal to modify the Gas Transmission Transportation Charging Methodology in relation to the methodologies to determine the NTS entry and exit capacity prices.

Sub-paragraph 2(b) of Standard Special Condition A5 (Obligations as Regard Charging Methodology) (the "Condition) of NGG's gas transporter licence sets out that the licensee "will not make any modification to the charging methodology where the Authority has, within 28 days (or within three months if the Authority intends to undertake an impact assessment) of the report being furnished to it under sub-paragraph (b) given a direction to the licensee that the modification shall not be made.

We can confirm that we consider the modification proposal to be "important" for the purposes of section 5A of the Utilities Act 2000 and that we intend to undertake an impact assessment in accordance with section 5A of the Utilities Act in respect of that proposal.

We recognise that NGG NTS has already extensively consulted on this issue, both through the gas Transmission Charging Forum and its public consultation. Given this extensive consultation process we have previously said that we were minded not to undertake an impact assessment. However, we believe that by undertaking an impact assessment the wider constituency and parties would be given an opportunity to comment on this important change. We therefore believe that in spite of shippers facing longer uncertainty with respect to charges going forward, it would be appropriate to postpone our decision until an impact assessment has been completed.

¹ Conclusions Report to the Authority NTS GCM01: Alternative Methodologies for Determination of NTS Entry and Exit Capacity Prices

We currently anticipate publishing the impact assessment document by 5 March 2007 and making a decision on the proposal on or before 25 April 2007.

In the interests of providing transparency to users of the transportation system this letter has been published on Ofgem's website. Should you have any questions on this matter please contact Nienke Hendriks at Nienke.Hendriks@ofgem.gov.uk.

Yours Sincerely,

Robert Hull
Director, Transmission