

6 March 2007

Mr. Mark Feather
Office of Gas and Electricity Markets (Ofgem)
9 Millbank,
London,
SW1P 3GE

Re: National Grid Gas - Offtake Arrangements, Final Impact Assessment on modification proposals

Dear Mark,

Thank you for the opportunity to comment on this document. Bord Gáis Networks (BGN) makes this response in its capacity as operator of the network downstream of Moffat.

BGN concerns over NTS exit reforms

BGN's fundamental concern is that NTS shippers at Moffat are not best placed to signal forward NTS flat exit capacity requirements at Moffat, and make financial commitments 3-7 years out. Given the extremely high dependency of downstream gas and electricity consumers on NTS Exit Capacity availability and gas flows at Moffat it would be unwise to leave Moffat capacity booking processes solely in the hands of NTS shippers. It would clearly be difficult for all individual NTS shippers to make a reliable assessment of, and commitment to, the collective requirement for future Moffat capacity given the dynamic of competitive downstream markets.

BGN are also concerned at the implications of the flexibility product, both in terms of physical operations at Moffat and the potential additional costs imposed on the downstream markets, arising through the construction of rules which afford no certainty on the availability, price or exposure associated with the product.

We appreciate the time and effort Ofgem and National Grid have devoted to assisting us in seeking means of mitigating the adverse impacts of the proposed NTS exit reforms at Moffat.

Comments on Impact Assessment

We are not persuaded by the analysis and arguments set out in the Impact Assessment that the proposed NTS exit reforms will yield the quantified benefits identified. As the document acknowledges, there are considerable uncertainties associated with measuring these benefits. Nor are we persuaded that the proposals can be properly judged using the form of qualitative assessment set

out in the document. In the absence of a clear-cut case for the reforms we believe it would be imprudent for Ofgem to require implementation.

With respect specifically to the impacts downstream of Moffat, we remain of the view that there will be adverse effects relating to promotion of competition, security of supply and implementation costs. The Impact Assessment itself acknowledges the present value of downstream costs could be greater than £6m. Whilst noting Ofgem's reasons for excluding these costs from its quantitative analysis, we are disappointed that the Impact Assessment does not take any account of the practical and efficiency implications of the proposals for cross-border trade and downstream jurisdictions.

We are pleased to note that Ofgem remains keen to assist in the resolution of any cross border trading issues that may arise as a result of the potential introduction of enduring offtake arrangements, but we believe that the Impact Assessment should address directly the compatibility of NTS exit reforms with, and the impact on, cross border trade and downstream jurisdictions. This approach, we believe, would correspond more closely with the requirement under EC 1775 for close cooperation relating to trade across borders of different transmission systems.

Transparency

In order to accurately forecast both Flat and Flexibility NTS Exit Capacity requirements for 2010 and determine booking arrangements (including the development of bidding methodologies for the flexibility capacity auctions), the following information is required from National Grid:

- Aggregate historical and forecast Flat NTS Exit Capacity booking information at Moffat; and
- Aggregate historical and forecast Flexibility NTS Exit Capacity usage information at Moffat and at all other NTS exit points in NTS exit Zone 1 and NTS exit Area North.

The provision of this information is primary concern to BGN, and despite requests of National Grid, no data has as yet been provided.

Timing

We are also very concerned with the proposed timetable for implementation, should Ofgem decide to precede with the exit reforms. There would be approximately three months only, between the date of Ofgem's decision and the time at which the capacity release processes take place in July. This is far too short a period for us to ensure robust processes are in place downstream of Moffat to deal with the impact of the reforms. We would therefore ask you to carefully consider delaying the capacity release processes to provide an adequate period for market participants to put the necessary arrangements in place.

We hope you find our response helpful. We would be happy to meet with you to discuss any aspect further.

Yours sincerely,

Avian Egan