

Ref: AW/PW/057

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Ofgem
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2 March 2007

Dear Mark

National Grid Gas – Offtake Arrangements Final Impact Assessment on modification proposals

Thank you for the opportunity to comment on Ofgem's Final Impact Assessment for offtake reform. NGN's views on the questions contained within the Final Impact Assessment are set out below.

Overview

NGN's most substantive concern is the assertion within the FIA that Ofgem has previously indicated that the costs of enduring offtake were associated with GDN sales and should be borne by GTs. It is inappropriate for GDNs to fund efficiently incurred costs associated with exit reform.

In addition, there are a number of subjective judgements in the impact assessment that are not fully underpinned by evidence which means that there is a lack of clarity as to whether or not there is a net benefit of offtake reform.

The analysis suggests that modification 116CVV has the highest net benefit and NGN would concur that this is the most appropriate modification in the event of implementation of enduring offtake reform.

Chapter 2: Background: Do you have any comments on the process associated with the modification proposals that have been raised?

The process for considering the modification proposals has been appropriate although the short timescales has led to proposals being assessed based on business rules and product definitions instead of legal text.

Chapter 3: Quantitative analysis of benefits and costs

The assessment of forecast costs is always likely to require an element of subjectivity when determining the appropriate value to assign. NGN does however continue to have some concerns with elements of the costs and benefits anticipated by Ofgem. In

particular, there is an absence of evidence underpinning many aspects of the quantitative analysis. Some specific comments are provided below.

- NGN is not in a position to comment in detail on NTS benefits or on shipper costs.
- Attributing a saving of £20.4m based on the assurance of comparative efficiency between all GDNs is in our view an exaggeration of any likely benefits in this area. We fully accept and welcome the requirement for comparative efficiency between GDNs, but there is little evidence for the values associated with the non introduction of the regime of £20.4m for proposals 116V, B and D or £10.2m for proposal 116C. It is unclear to us that undue discrimination between DNs is currently leading to significant inefficiencies.
- Similarly a benefit of £9.7m based on the reduced incidence of ARCA disputes is not backed by evidence and appears high. The credibility of such a figure can only be readily given if a cost per ARCA is assigned and an indication of past costs and ARCA dispute volumes is provided. We recognise this data is confidential however no specific detail is required, just supporting information which underpins the value of £9.7m.
- Ofgem states in 3.63 that staffing costs projected for twenty four hour coverage to cover potential participation in flexible capacity auctions may be overstated due to the likelihood of the peak aggregate flexibility capacity, which will negate the need for this level of staffing. As a GDN we would be extremely reluctant to risk such a scenario. Given that three of the five proposals incorporate flexibility auctions we firmly believe it is reasonable and appropriate to resource for such a critical eventuality (relevant to 116V, 116BV and 116VD only).
- Paragraph 3.77 says that costs of enduring offtake were effectively costs associated with GDN sales and should be borne by GT shareholders. The paragraph states that the policy intent was stated clearly at the time (in the Final Impact Assessment of sale dated November 2004) and that the implementation costs of offtake reform would have been priced into GDN sale prices. There are a number of comments we would wish to make:
 - The November 2004 Final Impact Assessment in 9.61 says “DN exit reform . . . falls outside the scope of DN sales”. Thus costs of exit reform clearly cannot be assumed to be part of sales costs.
 - Nowhere does the November Impact Assessment say that costs of exit reform are to be borne by transporters. To suggest otherwise risks undermining the whole cost benefit analysis. Furthermore, impact assessments should never exclude any costs borne to achieve the benefits. As we pointed out in our response to the June 2006 draft offtake impact assessment it would not be acceptable to NGN to bear the costs of exit reform. These costs will be incurred to ensure that customers achieve the benefits outlined and hence should legitimately be passed through to customers.
 - The November Impact Assessment was published two months after the price had been agreed between purchasers and Transco and hence its contents could not have been taken into account in the sales transaction as suggested in paragraph 3.77.

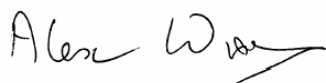
Chapter 4: Qualitative analysis of benefits and costs

We note that Ofgem suggests that there are significant potential benefits to customers which will be uncovered in the qualitative areas of the proposals, and that as a result it is important not to give undue weight to the quantitative analysis.

NGN is concerned at the level of complexity associated with elements of some proposals. Flexibility capacity remains unnecessarily complicated in our view and a proposal such as 16CVV which is more akin to the existing OPN process in this area would mitigate this issue.

Please do not hesitate to contact me should you wish to discuss any aspect of our response.

Yours sincerely

A handwritten signature in black ink that reads "Alex Wiseman". The signature is written in a cursive style with a long, sweeping underline.

Alex Wiseman
Regulation Director