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Dear Richard,

Response to Impact Assessment on Charging Arrangements Associated with Methodologies for Determination of NTS Entry and Exit Capacity Prices

Thank you for the invitation to respond to this Impact Assessment. This response is sent on behalf of National Grid's distribution business.

We consider that the proposed transportation model better meets the Licence objectives than the current Transcost model. From the analysis seen to date the charges resulting from the model would seem likely to be more stable from year to year than those from the current model. The process for determining the charges is also more transparent than at present. Both these improvements should improve the facilitation of effective competition between shippers and between suppliers.

Although the transportation model might appear to be less cost-reflective than the present Transcost model, we consider that the more stable charges which are likely to result from adoption of the new model will give a better indication of the ongoing cost-reflective differences in exit charges than use of the current model does. This is particularly important where longer-term investment or contractual decisions are made by a DN taking account of the NTS exit charges. We consider that this benefit outweighs any detriment arising from the simplifications incorporated within the new model.

However, we consider that the proposed implementation date for the new methodologies has not been fully assessed. Under current processes, the DNs must specify their finalised OCS requirements for NTS offtake capacity for the coming gas year (commencing October 2007) by 31st July at the latest. Under their Licences, the DNs are incentivised to optimise their NTS offtake capacity requirements with the incentive mechanism incorporating the exit charges applicable from October 2007 to March 2008. National Grid Distribution has based its current analysis of NTS offtake capacity requirements from October 2007 on the existing balance of exit charges. If the decision is taken to change the basis of the NTS exit capacity charges from October 2007 there will be insufficient time to properly determine the most economic balance of exit capacity bookings prior to July, particularly if definitive charges on the new basis are not provided until 1 August, thus leading to potentially uneconomic decisions being taken. We consider therefore that it would be better to make the decision now to implement the new methodologies but with implementation delayed until October 2008, at least in respect of exit charges, so that all parties can have proper time to respond to the new charges.

If a full year's delay is considered unacceptable then a delay of implementation until April 2008 would still ensure that DN offtake bookings for 2007/8 were not made on a basis potentially mis-aligned with the applicable exit prices. In any case, we can see no rationale for the immediate implementation of exit charges on the new basis since any decisions relating to the location of new direct NTS loads for commencement in 2007/8, which might be influenced by the exit charges, would already have been taken by now.

If you need further clarifications on any points raised in this response, please do not hesitate to contact me.

Yours sincerely,

(by email)

Steve Armstrong