

Clare Sibly  
Project Leader  
Office of Gas and Electricity Markets  
9 Millbank  
London  
SW1P 3GE

Chris Bennett  
Regulatory Frameworks Manager

Chris. Bennett@uk.ngrid.com  
Direct tel +44 (0)1926 655949

[www.nationalgrid.com](http://www.nationalgrid.com)

27 February 2007

Dear Clare

**Re: Ofgem conclusions document "Gas Quality Scenario Development and Economic Regulation workstreams - Conclusions"**

We welcome the opportunity to comment on Ofgem's conclusions document "Gas Quality Scenario Development and Economic Regulation workstreams - Conclusions". This response is written on behalf of National Grid Gas plc ("NGG") in its capacity as the holder of a gas transporter licence in respect of the National Transmission System.

We consider that it is essential, considering the continuing decline of indigenous supplies from the UKCS, for the industry to consider the extent to which gas quality may in future constrain supplies to GB and potential solutions. We consider that Ofgem's workstream meetings have been beneficial in allowing the industry to discuss these issues and obtain initial views in respect of development of potential solutions.

Workstream Conclusions

We agree with the key conclusions of the workstreams in that:

- there is uncertainty in respect of the extent to which gas quality may in future constrain supplies to GB and therefore whether, and at which entry points, there may be a need for gas processing facilities. We agree that this is due to difficulties in sourcing necessary data and that, in part, this is due to commercial confidentiality issues preventing market participants providing their best forecasts.
- if solutions are required, that it would be appropriate to further develop the economic regulatory framework in respect of gas quality services in accordance with the "Hybrid 2" approach. This will provide the opportunity to further explore potential outcomes of such an approach and establish whether the approach is credible or whether some re-assessment of the key assumptions might be appropriate. A key area of such work will be to ensure that transparent arrangements are developed for approval by Ofgem in respect of the amount of financial commitment that Users need to provide to NGG such that investment can be undertaken with certainty that NGG will be remunerated over the lifetime of any investment at an appropriate regulated rate. In addition, the success of the Hybrid 2 approach, over alternates such as Hybrid 1, will fundamentally depend on the appropriate risk/reward balance for NGG under incentive arrangements associated with release of gas quality services above that committed by Users. It should be recognised

that currently NGG does not have information on which to base decisions to undertake such additional investments.

### Way Forward

In respect of the way forward, we consider that:

- further work could be undertaken to seek to better forecast the impact on future GB supplies of gas quality constraints. However we note that such an initiative may not be able to add to information already obtained due to difficulties in sourcing necessary data. It may thus be more appropriate to focus on potential solutions to allow market participants the opportunity to indicate whether they desire gas quality services and the form of such services.
- further industry discussions are undertaken to support development of the details of the high level regulatory principles developed by the Economic Regulation workstream under the “Hybrid 2” approach . We note that Ofgem suggests this should be industry-led, however there may be merit in further Ofgem-led forums until specific proposals are raised and taken forward through established industry meetings. We would also note that there may be merit in early engagement with the Health and Safety Executive in the development of such potential new arrangements.

Please do not hesitate to contact either me or Paul Roberts on 01926 656369 if you wish to discuss our response.

Yours sincerely

Chris Bennett  
**Transmission Regulation Manager**