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Dear Bob

Transmission price control review: Draft licence conditions (gas) second informal consultation

National Grid welcomes the opportunity to comment on the draft licence modifications proposed in Ofgem's recent licence consultation¹ in respect of National Grid Gas plc's ("NGG") GT licence.

We have already provided comments to Ofgem ahead of the formal closure of the consultation through bilateral meetings and correspondence as follows:

- Corrected text for SpC C26 (Information to be provided to the Authority in connection with the transportation system revenue restriction in respect of the NTS transportation owner activity) received from Ofgem 29 January;
- Initial comments on all conditions sent to Ofgem 9 February, including Marked up changes suggested to C8B & C8E.
- Letter relating to new licence conditions sent to Ofgem 9 February; reply received from Ofgem 12 February;
- Meeting between NGG and Ofgem by teleconference 13 February; and
- Other email correspondence and phone calls relating to drafting issues.

As can be seen from the above, we have continued to work with Ofgem to develop the drafting throughout the consultation process and we acknowledge that some progress has been made. However, whilst we are generally supportive of the principles behind the proposed new licence conditions, we have a number of outstanding concerns about the detail. These concerns relate principally to the following areas, as described in more detail in the letter dated 9 February referred to above:

1. the new special condition C11 (Transmission planning code) is too prescriptive. We have therefore proposed some alternative drafting to focus the obligation on a requirement to develop the system in accordance with the duty in section 9(1) (a) of the Gas Act 1986. This eliminates the overlaps with other existing licence conditions created by Ofgem's drafting, including:
 - (a) existing SpC C5 (Licensee's procurement and use of system management services);

¹ Transmission price control review: Draft licence conditions (gas) – second informal consultation (Ref 16/07), Ofgem, 26 January 2007

- (b) existing SpC C15 (Licensee's methodology for determining incremental entry capacity volumes); and
 - (c) existing SpC C18 (Licensee's methodology for determining incremental exit capacity volumes).
- 2. the new special condition C24 (Network Model) requiring us to make available a "functioning computer simulation model" is, as we have discussed, inappropriate. We have proposed that this licence obligation should be replaced by a commitment in writing by National Grid to develop a model for use by both National Grid and Ofgem and that we can provide transparency to the industry through appropriate fora, as we are extremely concerned that:
 - (a) the information could be used to the commercial advantage of those shippers able to commit the necessary resources to interpreting the model to identify constraints. This could lead to (i) increased operational buyback costs, which would ultimately be faced (at least in part) by customers; and (ii) some shippers having a commercial advantage over others; and
 - (b) a detailed computer model in the public domain may compromise the physical security of the network.
- 3. the new special condition C25 (Promoting competition in the provision to the licensee of system support and operating margins services) creates significant duplication with the provisions of SpC C5 (Licensee's procurement and use of system management services) and is overly prescriptive. We have therefore proposed alternative drafting which obliges NGG to publish a statement, which is subject to industry consultation, to assist potential providers identify whether they are able to satisfy our operating margins requirements.
- 4. the new special condition C13 (Network output measures) requiring us to develop network output measures. In summary, we believe that this condition is overly prescriptive and does not reflect the kinds of output measures which are either practicable to develop or possible to implement. We have discussed with Ofgem what their policy intent is regarding this issue, but we do not believe this is accurately reflected in the consultation drafting. We have proposed some alternative drafting for this condition, which enables collaborative working with Ofgem to develop an appropriate and fit for purpose set of output measures.
- 5. the reporting obligations in SSC A40 (Price control review information), SpC C26 (Information to be provided to the Authority in connection with the transportation system revenue restriction in respect of the NTS transportation owner activity) and SpC C13 (Network output measures). In summary, we have concerns that:
 - (a) the implementation timetable being worked to is not consistent in all cases with the timetable required by the licence drafting;
 - (b) the reporting packs being developed do not explicitly link back to the appropriate licence condition, including, where appropriate, to specific licence terms;
 - (c) there is overlap between reporting obligations in different conditions;
 - (d) the target date of 31 July for reporting will not be achievable given that the reporting packs are still under development. We have therefore proposed that 2006/07 data is used to prove the tables within the reporting pack and that the 2007 reporting date is delayed by three months until 30 September.

We look forward to continuing a close dialogue with Ofgem to develop the proposed licence conditions in time for implementation.

Yours sincerely,

(by email)

Chris Bennett