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Dear Joanna,

Proposal to modify Standard Special licence conditions A4, A5 and D11 of the Gas Transporter licence – Consultation ref: GDT/TRA/MS/4

We welcome the opportunity to comment on the proposals to modify Standard Special Conditions A4 (Charging - General), A5 (Obligations as Regard Charging Methodology) and D11 (Charging obligations) of the Gas Transporter licence applicable to National Grid Gas plc ("National Grid") and other gas distribution network operators ("DN operators").

Comments on Proposals

Our comments on the two recommendations raised within the consultation are as follows:

Recommendation 1: Allow DNs to update distribution charges twice a year

The current October charging change is used by licensees to adjust their charges to ensure that they recover their allowed revenue by the 31st March of the present formula year. We agree with Ofgem that the alterations to such charges in October are approximately 1.75 times greater than they would otherwise be if the charges had been set at April. We also agree that setting charges in October can lead to a reversal effect between years, such that a large increase in one year is likely to be followed by a large decrease the following year and so on. Accordingly, there is considerable benefit in aligning the DN operators' charging and formula years as this would reduce both the magnitude of charge changes and smooth out the change to such charges between formula years. As a result we are in support of this proposal.

This change also interacts with the proposed methodology change to the capacity/commodity split of LDZ System charges. At present, some 35% of DN operators' revenue is collected through commodity-related charges: these charges are set based upon forecast demand. As actual demand varies from that predicted, these charges contribute to variation between allowed and collected revenues, known as "K", which must be factored into the subsequent formula year's charges. Setting charges to take effect in April would require a definitive charging statement to be published at the beginning of February, and decided upon in January, well before the final "K" position is known for the Formula Year. The uncertainty in "K" at January could lead to inaccuracies in recovering the correct level of revenue for the following Formula Year with an April change. However, the proposed methodology change would significantly reduce the uncertainty in "K" and so enable charges to be set for April to more accurately recover the correct level of revenue. We consider that the proposal to allow changes to charges at both April and October, alongside the proposed methodology change, should enable transportation charges to be much more stable than at present, to the significant benefit of shippers and consumers.

Recommendation 2: Reduce the indicative notice period from five to three months

We believe that through the Uniform Network Code modification 162 review, DN operators and shippers can identify information sources that will assist shippers in predicting the scale and direction of future changes to charges on an ongoing basis.

We agree that reducing the indicative notice period from 150 days to three months will lead to the indicative charges being a more accurate estimate of the actual charges applied. However, we also recognise that publishing the indicative charges later than at present may make them less valuable to

shippers and others in the industry. It would therefore seem that a balance needs to be struck between the accuracy and timeliness of the information. The purpose of the indicative notice is to provide other parts of the industry with beneficial information on the forthcoming changes to charges and so we consider it appropriate for the general industry view on the balance between the accuracy and timelines of the indicative charges to be taken into account in determining whether any change in the notice period should be made.

Comments on Structure of Proposed Licence Changes

We would note that the consultation setting out these proposals is capable of causing some confusion because it implies that the obligations which are the subject of the consultation are all contained in each of Standard Special Condition D11 (Charging Obligations), Standard Special Condition A4 (Charging- General) and Standard Special Condition A5 (Obligations as regard Charging Methodology). We would like to point out that, while Standard Special Conditions A4 and A5 also apply to National Grid Gas's gas transporter licence in respect of the NTS (with specific amendments applicable only to the NTS), the relevant obligations concerning the timing of charge changes are contained only in Standard Special Condition D11 which has the effect of "pasting in" to Standard Special Conditions A4 and A5 those obligations in relation to charging and charging methodologies which apply solely to the DN Operators. In this light, it would have been helpful if the consultation has made it clear whether what is being proposed is, to the extent that it relates to the ability of licensees to change their charges more than once a year, a change to Standard Special Condition D11.

By contrast, the obligation to publish indicative charges 150 days in advance is contained in paragraph 2(d) of Standard Special Condition A4 and therefore applies equally to the NTS operator. It would have been helpful if the consultation had made it clear whether the changes proposed to the timing of the publication of indicative charges will also be applicable to the National Grid Gas's licence in respect of the NTS.

While this may appear to be an academic point, it does have practical consequences: if the changes included in the Proposal are to be effected for DN operators only, this can only be implemented by a change to Standard Special Condition D11 using the "private" collective licence modification procedure in Standard Special Condition D2. However, if the change to the 150 day notice period contained in paragraph 2(d) of Standard Special Condition A4 is to be amended for both DN operators and the NTS operator, the "private" collective licence modification procedure in Standard Special Condition A2 must be used to modify that paragraph 2(d).

We hope you find these comments helpful. If you need further clarification please do not hesitate to contact me.

Yours sincerely, (by e-mail)

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