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Dear Joanna

Notice of proposals under section 33BAA of the Gas Act 1986 to prescribe standards of performance in regulations - 05/08

This response is made on behalf of National Grid's UK distribution business.

As indicated previously, we generally support the amendments to the standards of service that Ofgem has proposed and the process that has been undertaken to develop them.

With the exception of a small number of specific issues that are outlined below, we believe that the proposed drafting of the Statutory Instrument (SI) is appropriate. For ease of reference, we have appended a marked up version of the SI incorporating the issues raised in this letter as well as correction of typographical errors.

7 Supply Restoration

We continue to believe that, whilst the proposed approach to compensating customers for interruptions to a gas supply as a result of an incident on an upstream network should result in payments being made to downstream customers, the proposals are unnecessarily complicated and will increase the costs of gas transportation.

As we have maintained throughout the discussion of this regulation, the relevant (downstream) gas transporter is best placed to know how much and to whom compensation is due. Consequently, the relevant gas transporter should pay any compensation due to customers and subsequently reclaim the aggregate compensation amount from the upstream gas transporter. This would avoid any inter-transporter errors or disputes leading to delayed or missed payments to customers and equally customers would know exactly who is responsible if a complaint arises in relation to compensation payments.

Although Ofgem's proposal will better protect customers in comparison to the existing compensation framework, for the reasons set out above, we believe customers interests could be served even more efficiently.

12 Payments

We continue to be concerned that the drafting of paragraph 12 is inadequate because it fails to incorporate the rule that gas transporters may discharge their obligations to make payments to customers by making the payment to a shipper for onward transmission to the customer. This rule is currently set out in standard condition 20 of the gas transporter licences. While the policy effect of paragraph 1 of standard condition 20 is clearly correct, this rule needs to be moved into paragraph 12 of the SI because:

- there are no obligations in the licence to make payments to customers to which the rule in its current location in the licence could apply; and
- it is difficult to see how the licence can amend the terms of the SI as this purports to do.

Overall, it would be much clearer if this rule was in paragraph 12 of the SI.

If the SI is not amended in this manner, it will continue to fail appropriately to reflect the way in which GDNs currently pay a considerable proportion of the required compensation payments to consumers. The mechanism, illustrated below, has proven to be an effective and efficient method of making compensation payments. It precludes the need for GDNs to hold or collate bank details before making payments and utilises the contractual relationships and payment mechanisms already in existence within the industry.

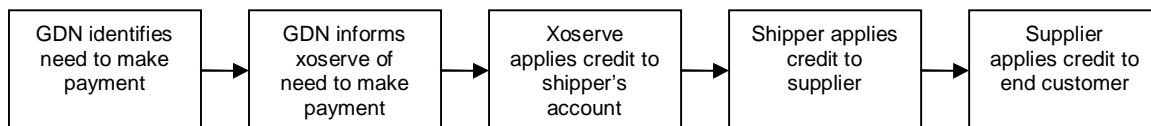


Illustration of practise for paying compensation to customers associated with transportation

A provision should be included to explicitly state that the application of a credit to the appropriate shipper represents a complete discharge of the transporters obligations. We attach suggested amendments to Regulation 12 paragraph 6 to take account of these changes.

If you have any questions about our response please do not hesitate to contact Duncan Willey on 01926 654069 or Paul Rogers on 01926 655584.

Yours sincerely

By email

Paul Whittaker