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25 January 2008

Our Ref: CB/kb

Dear Bob,

**National Grid Gas plc Transmission response to the open letter “National Grid Gas NTS price control allowance for xoserve”**

This is the response of National Grid Gas's transmission business (referred to in this letter as “National Grid Gas Transmission”) to the above consultation. Our response is not confidential and we are happy for it to be published by Ofgem.

In your letter, you invite comment on whether we agree with your approach for setting opex allowances for the funding of xoserve and the proposed allowances that you have derived using the approach. We agree with the principles that you have followed, and have just one comment with respect to the proposed allowances (for industry change to align with the stated principles) and two detailed comments on the precise form of the price control arrangements.

We accept that it is appropriate for 11% of the efficiency savings that you have identified to be attributed to National Grid Gas Transmission and that our share of the cost of the user pays services that will now be funded directly by shippers should be deducted from the allowance proposed in our letter of 25 September 2007.

The biggest area of difference between your proposals and our letter of 25 September 2007 relates to the proposed allowance for industry framework changes. Our interpretation is that you are proposing to fund the developments associated with the Trades & Transfers aspect of Entry Capacity arrangements, but not the other aspects (additional buy-back provisions, revenue pot allocations, and base-line swapping). We are particularly concerned about the revenue pot allocations changes as work has already commenced to ensure that these can be implemented in the next financial year. Therefore, we believe that the allowance should be increased by £2.9m to cover the full extent of the Entry Capacity changes that were introduced into our licence as part of the Transmission Price Control review.

We note your belief that GEMINI changes should follow a similar process to the process that is being introduced for other systems within the UK Link suite of systems (user pays). We agree with this approach, and will continue to work with the appropriate industry working group to develop the process and UNC changes necessary to make it work.

We also welcome the option for funding any other industry framework change that does not fall within the user pays remit through an ex-ante allowance or ex-post logging up mechanism and believe that this is an essential framework given the uncertainty over industry change proposals. We also believe that such arrangements should be developed so that there is minimal cash flow impact on the business. Therefore if we think that any industry change should fall into this category, we will make this clear in the associated Modification Proposal and liaise with Ofgem prior to the raising the

Modification Proposal to agree the funding mechanism. We will do this for the other changes outlined in our letter of 25 September (ie energy balancing changes to within day cost targeting and/or balancing at the city gate to the DNs; European changes such as additional information provision and/or changes to the gas day times; changes to the Reconciliation by Difference process) should they come to fruition, and for the aspects of Entry Capacity change outlined above if our allowance is not increased as we are requesting.

Our detailed comments on the precise form of the price control arrangements are that we believe that it would be prudent to include a mechanism within the licence drafting to allow for the recovery of any agreed additional funding to cover industry framework change should the need arise, and we also believe that it is appropriate for sharing factors to be applied to the xoserve costs to be consistent with all the other System Operator costs incurred by National Grid Gas Transmission.

In conclusion, we support your approach, but believe that the allowance should be increased by £2.9m to £42.4m over the four year period to cover all the Entry Capacity changes that were introduced into our licence as part of the Transmission Price Control review. We would welcome the opportunity to discuss the necessary licence amendments, including our two detailed points, with you prior to the statutory consultation.

Should you wish to discuss any of the matters raised in our response, please do not hesitate to contact me or Kevin Broadbent on 01926 656027.

Yours sincerely

**Chris Bennett**  
**Regulatory Frameworks Manager**