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Dear Bob

National Grid Gas NTS price control allowance for xoserve

In your open letter dated 20 December 2007, you invited views on Ofgem's proposed approach for setting opex allowances for the funding of xoserve and the proposed allowances derived using that approach.

It is important to ensure that Ofgem's approach to the treatment of xoserve costs in the NTS price control is consistent with the approach that has been adopted in Ofgem's GDPCR final proposals for the GDNs. Based on this principle, we make the following comments:

Efficiency assessment

We agree that it is appropriate to attribute the appropriate percentage of efficiency savings identified in Ofgem's review of xoserve's operating expenditure through the GDPCR process to the NTS.

User pays

Likewise, we believe that it is appropriate to remove from the NTS price control the share of costs associated with the provision of existing services that have been identified as user pays services; and to treat as excluded services the NTS share of income associated with these services being paid for directly by shippers through the user pays model.

Industry framework changes

It appears appropriate to allow the efficient costs associated with the implementation of NTS licence obligations in respect of transmission exit reform and entry capacity arrangements and believe that this is consistent with the GDN cost allowances in respect of transmission exit reform and distribution interruption arrangements.

We also agree that it would be appropriate for Ofgem to consider either an ex-ante allowance or an ex-post review of future significant costs associated with industry framework changes that have not been funded if and when they arise. However, in doing so we would expect Ofgem to adopt the same approach should any future industry change impose significant hitherto unfunded costs on the GDNs.

I hope that you will find these comments helpful.

Yours sincerely

Rob McDonald
Director of Regulation