



Consumers and their
representatives, gas
transporters, gas shippers and
gas suppliers and other
interested parties

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value for all customers*

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Dear Colleagues

Decision on National Grid Gas NTS's price control allowance for xoserve

On 20 December 2007, Ofgem published an open letter consulting on the appropriate level of allowed revenues for National Grid Gas the NTS operator (NGG NTS) in relation to xoserve's costs¹. We received four responses to the consultation; these are available on the Ofgem website². This letter summarises the key points of the responses and sets out our decision. A section 23 Gas Act 1986 consultation notice on the proposed licence changes³ accompanies this letter.

Summary of responses

The four responses came from a gas distribution network (GDN) licence holder, two gas shippers and NGG NTS. The GDN agreed with Ofgem's approach, citing it as consistent with the approach adopted in Ofgem's GDPCR final proposals for the GDNs. The two shippers were largely concerned with the application of the "user pays" principle in transmission; one asked for clarity as to how Gemini changes will be funded, whilst the other expressed disappointment that user pays had been adopted and considered that the removal of the allowance associated with shipper driven modifications could stifle the development of transmission related activities. NGG NTS was in broad agreement with Ofgem's proposals, but had two main points; it stated that the proposed allowance needed to be increased by £2.9m to cover the full extent of the Entry Capacity changes that were introduced into its licence as part of the TPCR, and considered 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.

Ofgem's view

We still think that that the user pays principle is the best way of funding certain service lines, but as noted in our previous open letter, we recognise that NGG NTS will be more likely to be the main proposer of changes to the Gemini system. Therefore, we would expect the majority share of the costs of change to the Gemini system to be recovered through gas transportation charges levied by NGG NTS. In instances where NGG NTS

¹ National Grid Gas NTS price control allowance for xoserve, Ofgem, 20 December 2007

² Available at

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=538&refer=Networks/Trans/PriceControls/TPCR4/ConsultationDecisionsResponses>

³ Standard Special C8G

identifies costs associated with its original industry framework change submission⁴ which neither fall under the user pays remit nor for which it has been funded, NGG NTS can log up those costs. However, these logged up costs will be subject to an ex-post efficiency review at the next Transmission Price Control Review, and they will be capped such that the sum of NGG's allowance and logged up costs will not exceed the total of their original submission (£16m).

We have further reviewed NGG NTS' request to increase the proposed allowance by £2.9m and NGG NTS has provided further detail in justification of this request. We have also noted respondents' comments as to the level and timing of the NGG costs relating to NTS exit capacity reform relative to activity in that area, and the fact that the obligation on substitution has been deferred to 2009. On this basis, we have decided to increase the four year allowance from £4m to £5.5m. We believe that this increase, in conjunction with the logging up mechanism, will allow sufficient funds for the implementation of industry framework changes in an efficient manner while allaying the concerns of respondents regarding the adequacy of funding.

Timetable

The term in the NTS licence is set to zero for the four years from 2008-09 to 2011-12. We intend to modify this term in line with the attached licence drafting, with a view to it having retrospective effect from 1 April 2008. Our proposed timetable is set out below:

Decide on xoserve allowance	9 May 2008
Start statutory consultation	9 May 2008
Close consultation	6 June 2008
Make licence modification	16 June 2008

If you have any questions on this consultation please contact Paul O'Donovan on 0207 901 7414.

Yours sincerely,



Steve Smith
Managing Director, Networks

⁴ Available at
<http://www.ofgem.gov.uk/Networks/Trans/PriceControls/TPCR4/ConsultationDecisionsResponses/Documents1/xoserve%20price%20control%20allowance%20-%20attachment%20to%20Ofgem%20letter.pdf>