

The Gas Forum



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Dear Ian

National Grid Gas (NTS) SO Incentives for 1 April 2010 – Ofgem Final Proposals

The Gas Forum Shipper Group is writing specifically in reference to Ofgem's proposals to introduce new obligations in National Grid's Gas Transporter licence as part of the SO Incentives review for 2010.

Shipper Group members have serious concerns around good governance in respect of Ofgem's proposal to introduce two new licence conditions on NGG to use reasonable endeavours to implement a Linepack trading product and to review default cash-out arrangements by April 2011. In particular:

- Imposing rigid licence conditions seems like an extreme measure in this instance, particularly given the lack of in-depth discussion on either issue throughout the SO incentives development and consultation period.
- It is disappointing to see significant changes proposed at the very final stage in the process, which leaves virtually no opportunity for change or further development.
- The lack of evidence supporting the case for implementing a linepack trading product. Ofgem appears to have leapt to the conclusion that a linepack trading product is the *only* acceptable solution to removing the linepack SO incentive, which is alarming given the lack of specific industry consultation on this matter.

We firmly believe that considering a linepack trading product and reviewing default cash-out arrangements should be dealt with using existing governance processes, such as the Transmission Workstream or through a UNC Review Group - both of which are much more flexible, inclusive and effective than taking the extreme measure of imposing rigid licence conditions.

Moreover, we believe Ofgem's time would be better spent addressing issues with a greater consumer impact; such as resolving the current uncertainty in respect of Canatxx liabilities, an issue the Gas Forum has been concerned with now for some time due to the impact it has on Shippers and ultimately consumers.

In summary, we urge Ofgem to reconsider their proposal to introduce the new licence conditions and to consider a more proportionate and inclusive approach to dealing with these matters.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'R Fairholme', written in a cursive style.

Richard Fairholme

Chair, Gas Forum Shipper Group