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Dear Paul,

**RE: Consultation Letter: Income Adjusting Event claim for the Canatxx incremental entry capacity signal at Fleetwood**

We are writing to you in respect of the above consultation. We do not regard this response as confidential and we are happy for it to be placed in the Ofgem library. We have not sought to address the separate questions within the consultation document, and will leave our members to set out their thinking on those in any individual responses they may wish to submit.

The Gas Forum has previously written to Ofgem expressing support for the action of one of our members in raising this Income Adjusting Event (IAE) against National Grid in the case of the Fleetwood entry point.

Gas Forum members are adamant that the position in which we now find ourselves was not as envisaged when Ofgem set the price control, particularly when the beneficiary of this windfall is a low-risk, regulated monopoly business.

At the root of this issue is that for a very limited category of shipper (i.e. single entry point, single capacity holding) unsecured bids may be made in a QSEC auction with impunity. Any shipper in that position then has a free option about whether and when to take up their reserved capacity. We believe that this is a deficiency in the prevailing credit arrangements, which we consider to be a National Grid obligation.

The current situation has also demonstrated that National Grid could not only be neutral to the effects of these deficient arrangements, but in the Fleetwood example could actually stand to recover significant unearned revenues from shippers who are otherwise not connected with the original auction signal. We therefore question the extent of the incentive upon National Grid to correct the current situation.

Our members are also concerned that too much emphasis is being placed upon the extent of buyback risk faced by National Grid over both its decision not to invest for Fleetwood, and into the future were another incremental signal to require substitution from Fleetwood. Many of our members are either gas storage operators and/or buyers of storage services, and

consider the likelihood of any development at Fleetwood to be extremely remote. They consider that were any development to take place at all, it would be a number of years away and very much smaller than original plans suggested. Members are also mindful that they are also exposed to excessive buyback action undertaken by National Grid.

It is self-evident that without this further intervention, National Grid and its shareholders stand to receive a windfall gain at a cost to our members' customers. This would clearly be inappropriate at any time however, as our members are all too aware, the timing of this could not be worse given the competing pressures of the massive investment needed to ensure secure gas supplies and the transition to a low carbon electricity future. Many of our members also face increased taxation from their GB production activities.

All of this must be delivered at the least cost to consumers. It would be extremely unfortunate if projects to deliver necessary infrastructure enhancements were to be postponed or cancelled due to funds being diverted to pay for a non-existent Fleetwood entry point.

The potential for a problem at Fleetwood has been evident for over two years now, and Gas Forum members have put significant effort into seeking a resolution, all the time mindful of the uncertainty that this issue continues to cause. Our members consider that in addition to this IAE a permanent solution must be sought to address the prevailing deficiencies and ensure that the gas industry is a fair and attractive place to do business. The ongoing RIIO T-1 discussions would seem to provide this opportunity.

In the meantime Gas Forum members fully support this IAE, and look forward to Ofgem taking a robust position against National Grid's decision to continue to collect this unearned windfall gain.

Yours sincerely



Steve Gordon  
Chair – Gas Forum