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*Promoting choice and
value for all customers*

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Date: 13 April 2011

Dear Bob

Authority view on UNC Modification Proposal 337

On 17 March 2011, the UNC Panel requested Ofgem's view on the appropriateness of the proposed apportionment of user pays charges for UNC Modification Proposal 337: '*Introduction of an inter-day linepack product*'. This letter sets out our views on Modification Proposal 337 and Special Condition C27 (1)(a) more generally.¹

As you will be aware, Modification Proposal 337 states that the introduction of an inter-day linepack product will only benefit shippers and that it should therefore be funded 100% by shippers. We have examined this proposal and our view is that seeking 100% of funding for this product from shippers is not appropriate. We consider that, in the event this product is implemented and where there are reasonable volumes of linepack available, there will be some benefits to the System Operator. Specifically, we consider that in the event there are reasonable volumes of linepack available, this product will facilitate more efficient balancing of the gas network, which will facilitate the economic and efficient operation of the system.

As discussions between Ofgem and National Grid officers have highlighted, we continue to have concerns with the potential volume, and discretionary aspect, of linepack that may be available to shippers through this modification proposal. We note this concern was shared by a number of Transmission Workgroup representatives that discussed Modification Proposal 337 and respondents to National Grid's inter-day linepack product consultation – Open Letter.

We also note that one of the reasons behind Special Condition C27 (1)(a) was shippers' concern with the gas residual balancing incentive, and in particular the linepack incentive. We considered that the development of a linepack product may have permitted the reconsideration of the linepack incentive. However, we note that there was little or no expression of interest from shippers in response to National Grid's open letter of 11 January 2011, which sought to gauge demand for such a linepack product.

Notwithstanding the concerns mentioned above, we consider that the process National Grid has undertaken in developing the product as set out in Modification Proposal 337 has

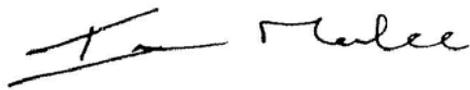
¹ Special Condition C27(1)(a) states that the licensee shall use reasonable endeavours to develop in consultation with shippers and interested parties (including the Health and Safety Executive) a gas linepack product by 1 April 2011 and shall report to the Authority on the conclusions of any such development and consultation by 1 May 2011.

sufficiently met the reasonable endeavours requirement in Special Condition C27 (1)(a). Given the apparent lack of demand from shippers, we do not consider that any further development of this particular product is appropriate at this time. We are therefore of the view that Modification Proposal 337 should proceed no further and should instead be allowed to lapse in accordance with paragraph 12.8.3 of the UNC modification rules.

We note that should shippers continue to have concerns with the gas residual balancing incentive, and in particular the linepack incentive, it is open to them to consider the options identified during the development of Modification Proposal 337. Following any consideration of these options, we would then encourage any shipper to develop, to a sufficiently robust level, an appropriate mechanism by which such concerns may be addressed.

Should you have any questions concerning this letter, please contact Industry Codes and Licensing at industrycodes@ofgem.gov.uk.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ian Marlee', with a horizontal line drawn underneath the signature.

Ian Marlee
Partner, GB Markets

CC. UNC Modification Panel Members