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31st March 2015

Proposed modifications to National Grid Gas plc's Licence to terminate Permit Arrangements and adjust the revenue earned for the period 1 April 2013 – 31 March 2015.

Dear David

Thank you for the opportunity to respond to your final proposals to make changes to NGGT's licence relating to the use of permits to vary lead times for the provision of incremental gas transmission capacity.

This response is made on behalf of National Grid Gas's Transmission business (NGG). Our role as the owner and operator of the GB Gas Transmission System is to ensure the safe, economic and efficient development, operation and maintenance of the National Transmission System.

Your final proposal is;

- to adjust, in the licence, the value of permits allocated to NGG which means a reduction of £8.35m to the total allowance for 1 April 2013 – 31 March 2015, reducing it from £32.39m to £24.04m and;
- to remove special licence conditions from NGG's gas transporter licence to terminate the Permit Arrangements.

The basis for the proposed revised value of permits is to adjust the revenue earned from permits in accordance with the "Permits committed for use" option (option 3) as detailed within your informal consultation dated 10th November 2014.

The points we previously made in our response¹ to your informal consultation issued on the 10th November 2014 also apply to your final proposals. In summary, our position is as follows:

- We agree that implementation of the Planning and Advanced Reservation of Capacity Agreement means that Permits are no longer required and that the financial value of

¹ <https://www.ofgem.gov.uk/ofgem-publications/92378/nggtconsultationresponse.pdf>

the permit scheme should be adjusted to reflect the reduction in forward prospective risk.

- We support your view that it is not right to “*retrospectively adjust allowances for risk, after the period in which that risk was borne and managed by NGGT*”, however we do not consider the proposed option fully adheres to this principle.
- We do not support the proposed option, given this reduces the financial value of the arrangements based upon historic performance and with the full benefit of hindsight.
- We understand the rationale for the adjustment; however we expect greater regulatory transparency and certainty of our incentives and regulatory allowances than provided in this case.

Given the subjective nature of the Permit scheme, we consider that an adjustment based upon Ofgem’s subjective assessment in determining the original value of the 14/15 permit scheme is appropriate. However, we agree with your acknowledgement that the proposed option is the least subjective of those previously consulted upon.

Licence drafting

Ofgem’s recent agreement to our proposed approach for incremental capacity release in the March 2015 QSEC auction and the subsequent approval of the capacity methodology statements (amended for the purpose of the PARCA arrangements), means we now agree that the proposed amendments to special conditions of our licence are a suitable reflection of your final proposals, subject to the following minor point:

- the proposed licence drafting deletes paragraphs 2D.10 and 2D.11. As the licence sections they refer to (i.e. parts D and E of Special Condition 2D) remain under the proposed drafting, our preference would be for paragraphs 2D.10 and 2D.11 to remain.

Should Ofgem wish to discuss any of the points raised in this response, please contact myself or Mike Wassell at mike.wassell@nationalgrid.com (01926 654167).

Yours sincerely



Helen Campbell