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Dear Julian

UNC Modification Proposal 0090: 'Revised DN Interruption Arrangements'

Thank you for your invitation seeking representations with respect to the above Modification Proposal. As proposer of the Modification Proposal National Grid Gas plc (UK Distribution) ("Distribution") is supportive of this modification.

These comments are in addition to those made in the proposal and are divided into general comments, a description of how the proposal better meets the relevant objectives and some brief comments on the legal text.

General Comments

Firstly, we would like make the comment that the proposal has benefited from extensive Workgroup development which extended to eight meetings. The Workgroup were able to identify some key issues, whilst not all of which were relevant to the UNC Modification Proposal, they were useful nonetheless. One of these was that the regime reform could not be considered in isolation from the accompanying charging arrangements. To support this the consultation on the pricing discussion paper PDDN01, "Interruptible Charging Methodology Options for UNC Modification Proposal 0090", issued on 25th September provided some useful indicators and whilst some respondents felt that it was difficult to comment on the options presented in the paper the majority felt that the regime reform would most likely benefit from selling interruptible rights via open tender rather than an administered or hybrid approach. This approach will help Users to indicate the value of interruption to them and for Transporters to compare this to the alternative ways of meeting its security obligations e.g investing in networks. The charging issue will be taken forward as part of a separate consultation process and is not discussed further here.

We recognise that the Modification Proposal only forms part of the proposed regime reform. If the proposal were to be implemented there would need to be accompanying licence changes for instance to introduce incentive arrangements. These are presently being addressed through Ofgem consultation, 191/06 Reform of interruption arrangements on gas distribution networks – An update. The incentive arrangements and treatment of investment costs become increasingly important where there is locational market power of individual participants and limited involvement in the sale of interruptible rights.

Similarly, the reform could impact on emergency arrangements and the Safety Cases of the Transporters and the NEC. We acknowledge that these are important issues but we recognise that they are outside the scope of the Modification Proposal and will be addressed through engagement with the HSE and the assessment of the materiality of the proposed change.

We would also like to make the comment that whilst we feel the proposal has merit, it needs to be demonstrated that the benefits of the reform outweigh the costs. Ultimately a balance has to be struck between addressing the shortcomings of the present arrangements whilst presenting participants with flexibility and choice to achieve the most efficient outcome. The results of Ofgem's present consultation on the draft impact assessment and the subsequent final impact assessment will assess whether there is a positive benefit of the proposed reform.

In terms of the relationship of this proposal with Modification Proposal 0116, Reform of NTS Offtake Arrangements, we would like to make the comment that this proposal is not dependent on the implementation of 0116 but it may be that through enabling an efficient trade-off of buying interruption rights or investing in the Distribution Networks and buying NTS exit capacity the benefits of reform are greater when the two reforms are considered together.

Relevant Objectives

We feel that the proposal better facilitates the following relevant objectives:

In terms of the coordinated, efficient and economical operation of the pipeline system (relevant objective 1(b)) this modification proposal has the support of all DNs and as the UNC would cover similar arrangements for each DN this should avoid unnecessary fragmentation. Also, as explained previously, whilst this proposal is not dependent on the implementation of proposal 0116 we feel that greater benefit could be achieved through the efficient trade-off of buying capacity products.

For the efficient discharge of the licensee's obligations under his licence (relevant objective 1(c)) implementation of the proposal would enable DNs to make informed decisions about investment in their networks. This facilitates the discharge of license obligations with respect to the economic and efficient development of DN systems.

On securing effective competition (relevant objective 1(d)) this should be considered for shippers and transporters. For shippers we believe that implementation would facilitate the securing of effective competition by allowing shippers to bid for interruptible rights for their supply points and thus would allow shippers the opportunity to develop innovative and flexible contracts. For transporters the onset of comparative regulation will encourage them to develop innovative approaches in offering interruptible terms.

Legal text

We have no particular comments on the legal text. The walkthrough session on 17th November was very useful and some points of clarity have been identified. Attendees at the meeting felt that these were sufficiently minor that it would suffice for the updated legal text to be made available as part of the Final Modification Report and that a variation request for the proposal was not required.

Finally, in summary, if this proposal were implemented then the perceived weaknesses of the present interruptible regime would be addressed, it better facilitates the relevant objectives particularly so DNs could facilitate the discharge of licence obligations with respect to the economic and efficient development of DN systems.

Yours sincerely,

Mark Freeman