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9th December 2008
Your Reference: 0195AV

Ref: UNC Modification Proposal 0195AV – ‘Introduction of Enduring NTS Exit Capacity Arrangements’ – Supplementary consultation

Dear John,

Thank you for your invitation seeking supplementary representations with respect to proposed changes to the legal text provided for the above Uniform Network Code (UNC) Modification Proposal.

National Grid Distribution (‘NGD’) is supportive of these changes being implemented.

We note that National Grid NTS (‘NTS’) has reviewed the legal text which it previously provided and identified an amendment. We are advised that NTS believes that these changes do not alter the intent of the proposal. We are also aware that the proposer of 0195AV, EON UK, has indicated that the proposed revision to the legal text to make clear that NTS Exit Commodity Charges would continue to be paid direct by DNO Shippers would not in their view change the intended effect of Modification Proposal 195AV.

On 4th December 2008, NGD participated in a specially convened meeting of the UNC Modification Panel which supported the above view but determined that a supplementary consultation should be held to give all parties an opportunity to indicate whether they believe that the proposed change to the legal text should not be made, and whether there was any reason why the change should invalidate the Authority’s approval of Modification Proposal 0195AV.

NGD’s opinion

We believe that certain provisions contained within the proposed legal text originally provided for UNC Modification Proposal 0195AV does not accurately reflect the intent of the Modification Proposal. This concerns references in the legal drafting made to NTS Exit Commodity Charges.

Under Modification Proposal 0195AV, NGT would invoice Distribution Network Operators (DNOs) directly for capacity booked at the NTS/LDZ offtake. This is assumed within the Retained Distribution Network (RDN) Licence which allows for the inclusion of these costs, subject to incentive arrangements, within the DNO maximum allowed revenue. The principle was also set out in the 2A charging model which was a key part of offtake reform discussions and was used by Ofgem in the Questionnaire – ‘Cost Impacts of Gas Offtake Reform and Incentives (April 2008)’. Given that DNOs would have some discretion over the level of capacity booked at the offtake, the principle behind this decision was they should face the relevant charges directly. DNOs would then be responsible for recovering costs from DNO connected Users. This introduces billing, cashflow, cost recovery and credit risk for DNOs. However, the payment and recovery of NTS Exit Commodity Charges by DNOs was not identified within these documents and is not included within the RDN Licence.

We understand that this element was added to the detailed business rules. However, we note that Section 7 (Charges and Credit Arrangements) of both proposals makes no reference to NTS Exit Commodity Charges and yet provides significant detail in respect of liability for NTS Exit Capacity Charges.

Also, from a transportation charging perspective, NTS Exit Commodity Charges reflect costs such as NTS Shrinkage. These are primarily related to NTS throughput. Since the DNO has no influence on the level of NTS throughput it is inappropriate for the DNO to be exposed to NTS Exit Commodity Charges. Even if the DNO could recover the costs through its own DNO transportation charges, there would be a cash flow issue and credit risk which we would be exposed to for no benefit elsewhere.

In view of the above information we do not believe that the detailed business rules accurately reflect the proposer's intent in respect of liability for NTS Exit Commodity Charges. Consequently NGD's view is that the proposed change to the legal text should be made. We also do not believe that this should invalidate the Authority's approval of Modification Proposal 0195AV.

If you require any further information in respect of this representation please contact Chris Warner on 01926 653541 or email chris.warner@uk.ngrid.com.

Yours sincerely

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