

UNC Mod Panel Secretary
Joint Office of Gas Transporters
31 Homer Road
Solihull
West Midlands
B91 3LT

06 February 2009

Dear John,

Re: **UNC Modification Proposal 228/228A – Correct Apportionment of NDM Error - Energy**

Thank you for the opportunity to respond to these Modification Proposals. Northern Gas Networks (NGN) agrees in principle that the issue of gas allocations between the SSP and LSP markets is subject to some inequities and is encouraged that the industry continues to try and tackle these issues.

The current regime of using Reconciliation by Difference (RbD) to re-allocate energy, both debit and credit, from the LSP market to the SSP market has now been in place for some time. In principle, if all energy that flowed was known this mechanism would be a suitable method of ensuring that ultimately the energy was allocated to the correct market through this reconciliation. Both of the modifications, however, acknowledge that not all energy that has flowed will be correctly apportioned through this mechanism.

Issues such as theft of gas, late registration of sites, including orphaned sites and other adjustments currently flow into the SSP market as a result of reconciling the LSP market at meter point level. The energy resultant from these issues is effectively unreconcilable under the current regime, which by default places it into the SSP market.

While we believe that it is important that a fair and equitable solution is implemented to address these issues, we have some concerns over the robustness of both the allocation percentages in modification 228 and the kWh values used in 228A. It has been shown during the recent workstreams and review groups that the base data used to generate these are as at a single snapshot in time, and that at a different point the results shown from analysing the same data set can provide a significantly different position. For this reason, NGN believes that both of these options still require further analysis before they would offer a viable solution.

Modification Proposal 228

Modification 228 is a further development of modification 194 and seeks to allocate a defined proportion of RbD energy movements back to the LSP market using the existing RbD mechanism. The nature of RbD is unpredictable as movements in energy through the RbD mechanism is as a result of LSP meter point reconciliation.

As noted in our representation to modifications 194 and 194A NGN believes that this solution would place additional risk on some market participants as a result of the variability of the RbD mechanism. While the absolute value of this risk may be more appropriately shared in the long run, the mechanism could provide significant short term risks where a participant is unable to manage the variability of RbD.

Modification Proposal 228A

This alternative proposal seeks to create a mechanism whereby the LSP market picks up a share of the unreconciled gas in a fixed manner over a 12 month period, with the total volume reviewed annually. This would remove the additional volatility of the monthly RbD process but keep the total amount of gas being reallocated annually based on RbD.

While this would appear to use a similar methodology for determining the volume of gas as that in modification 228, the initial figures used within the modification cannot be fully substantiated or agreed between the various market participants.

Conclusions

NGN believes that while the principles of both modifications are the same, the proposed solutions do not provide sufficient clarity in respect of the source data used or the methodology for reaching their conclusions that would be required to provide comfort that the allocations are robust.

While both modifications will move energy to the LSP market that would otherwise have been borne by the SSP market, it is our belief that these modifications do not address the underlying causes or incentivise the industry to fully address the source of the issues. NGN believes that of the two modifications addresses here, Modification Proposal 228A would better achieve the relevant objectives by mitigating the variability risk that Modification Proposal 228 places on some parties.

Yours sincerely,



Joanna Ferguson
Revenue and Credit Manager