

John Bradley,
Modification Panel Secretary,
Joint Office of Gas Transporters,
First Floor South,
31 Homer Road,
Solihull,
West Midlands,
B91 3LT,
England.

16 March 2009.

via e-mail only

Dear John,

Re: Draft Modification Report 0243: Amendments to the process for initialisation of Enduring NTS Exit (Flat) Capacity at the Moffat NTS Exit Point

Vayu Limited ("Vayu"), in its capacity as a shipper downstream from Moffat and as a holder of a UK shipper's licence, welcomes the opportunity to comment on the above draft modification report, which has been prepared in connection with the proposal to modify the Uniform Network Code ("UNC") (ref Modification 243) and is directly linked to the approval of Modification 195AV - Introduction of Enduring NTS Exit Capacity Arrangements. Given that Moffat supplies well over 90% of the natural gas supply requirements to three separate jurisdictions it is a unique exit point in the context of the overall NTS and any changes to amend the exit regime in the UK should bear this in mind. The circumstances applicable to other exit points are simply not comparable.

Proposal

As a downstream shipper with obligations from our counterparties upstream at Moffat, we are concerned that the introduction of Mod195AV will give incorrect market and investment signals to National Grid NTS in relation to Moffat capacity, and will make Moffat a less attractive source of gas, due to the absence of a link between traded volumes and capacity bookings.

We support the proposer's views in relation to this proposed modification, in that the benefits will be numerous:

1. Enhanced competition, liquidity and efficiency in the wholesale market at Moffat
2. Improved signals of NTS exit capacity requirements at Moffat
3. Improved utilisation of booked NTS exit capacity at Moffat
4. Lower overall costs of NTS exit capacity at Moffat
5. Moffat would be more competitive as a source of gas for the downstream markets
6. Security of supply issues should be addressed in that Vayu, as a downstream shipper, cannot be expected to independently signal downstream requirements.

Under Mod 195AV, Moffat would be effectively treated as a Direct Connect and does not recognise the requirement at Moffat to provide an effective linkage between the transportation regimes, thus facilitating effective trading and efficient capacity bookings at the exit point. Mod 195AV requires that the current

capacity certification process is discontinued. We do not believe that that this removal will be in the best long term interest of the transportation system, will create mismatches between future upstream and downstream capacity holdings and break the link with the traded volumes.

We support the purpose of this Modification, which is to defer 'initialisation' under Modification 0195AV at Moffat until May 2011 at the latest. This Modification would avoid the immediate creation of capacity and traded volume mismatches and ensure that the aggregate level of initial enduring rights is preserved for an appropriate period until a certification process can be established. This also addresses immediate concerns over the signals regarding the aggregate Moffat capacity requirements that might otherwise be provided to National Grid NTS in the annual application windows. Deferral will also allow time to consider appropriate long term solutions.

Relevant Objectives

We believe that the implementation of the proposal would better facilitate the relevant objectives, which are detailed in the standard special conditions A11.1 (a) – (f) and, in particular, the fact that the proposal will ensure the registration of initial enduring rights stays with end-users having ongoing commercial relationships at Moffat, requiring the capacity to fulfil their obligations. Conversely, registration based on historic rights (which bear no relation to future commercial arrangements) would be avoided. Therefore, implementation could be expected to avoid the administrative burden associated with unnecessary and inappropriate initial registration at Moffat, and the subsequent process of enduring capacity reductions.

Security of Supply

We believe this proposal will improve security of supply as downstream shippers will give continuous signals of their requirements at Moffat.

Affect on UK Link System

As the proposal is strictly localised to Moffat, this proposal will have little impact on UK NTS shippers in an overall context.

Summary

In conclusion, Vayu believes that this Modification recognises the unique situation at Moffat and also the importance of the linkage between booked capacities and traded volumes. In our opinion, these proposals go some way to alleviating the concerns of shippers and suppliers, who are downstream from Moffat and who would suffer adversely from the implementation of Mod195AV. We believe that the proposals will result in Moffat being utilised on a far more effective basis and we give our support to the proposed Modification.

Yours sincerely,

Bryan Hennessy