

Stuart Cook
Director Transmission
Ofgem
9 Millbank
London
SW1P 3GE

Adam Brown
Revenue Manager
adam.brown@uk.ngrid.com
Direct tel +44 (0)1926 655839

www.nationalgrid.com

13th October 2009

Dear Stuart,

Indicative Notice of Revised NTS Entry Capacity Reserve and Step Prices

I am writing to give 150 days notice of our intention to change the Entry Capacity Reserve Prices and Incremental Entry Step Prices for the next Quarterly System Entry Capacity (QSEC) auction. This is expected to be held in March 2010, following implementation of Uniform Network Code (UNC) modification 230AV.

Prices for permanently obligated and incremental entry capacity will be calculated in accordance with the arrangements set out in the latest approved Statement of the Gas Transmission Transportation Charging Methodology and the Incremental Entry Capacity Release (IECR) Methodology Statement. Please note that National Grid expects to consult on changes to the IECR prior to the next auction, which will affect the capacity step size offered in particular (but limited) circumstances.

Entry prices are set using a transportation model that will be reviewed to include:

- updated supply and demand patterns determined from the latest data in the 2009 Ten Year Statement and the balancing rules introduced by GCM-16. These updates tend to most affect terminals closest to areas where supplies have changed.
- the pipeline network expected in 2012/13 based on pipeline changes included in the 2009 Ten Year Statement. These changes are likely to have a relatively small impact on entry prices.
- revised investment costs by a change to the expansion constant. A change to the expansion constant would, all other things being equal, alter the range of entry prices and particularly entry terminals furthest from centres of demand.
- permanent obligated capacities allocated from previous auctions. Any changes to these capacities will impact the price at that entry terminal.

The notice of the reserve and step prices to apply will be given at least two months in advance of the QSEC auction.

If you have any questions about this Indicative Notice please contact me on 01926 655839 or Karin Elmhirst on 01926 655540.

Yours sincerely,

Adam Brown
Revenue Manager