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(24hrs)

*calls will be recorded and may be monitored

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7th, June, 2013

Your Reference: UNC Modification Proposal 0441.

Re: UNC Modification Proposal 0441: Continuation of Daily Metered (Voluntary) service until the implementation of Project Nexus

Dear Bob,

Thank you for your invitation seeking representation with respect to the above Modification Proposal, which, on balance, National Grid Gas Distribution ("NGD") would like to support.

Do you support or oppose implementation?

Support

Please summarise the key reason(s) for your support.

It is fair to say we are confused over the exact industry position with regard to DMV (daily metered - regulated service) versus DME (daily metered - shipper service), and exactly how the industry would like to move forward. As arrangements stand, we have an implemented modification proposal, which was raised by a shipper and implemented at considerable expense which established the DME regime. This service has never been used. We are also aware that Nexus has a largely shipper defined service known as "Product 2" which bears a remarkable similarity with DME, although we note that, significantly, the service standards are lower. We conclude from these observations that the reason DME has not been used is the inherent difficulties that would-be service providers are finding in trying to match the service level required for DME, given the regulated charge comparator.

On balance, while we believe that market is the best way of achieving the keenest prices, in this case where we are moving into a relatively short transitional period where DME would be the electable daily read service available, there is a case for retaining DMV. Given that DME has not developed, we have concluded that the proposal to leave DMV in place and look for the market to replace it, not with DME but with Product 2, is the most pragmatic solution.

Implementing DME was the right decision to make, but it was pitched up against DMV and it could not compete with the regulated offering. Therefore, if we look at where we are, we have a period of two years or so until Product 2 comes into existence. If this proposal is not implemented, most likely we will force DMV customers to revert to NDM, given the lack of market response to date for providing DME, which in the overall context of the code is an inappropriate outcome.

While our natural sentiment would be to try to remove the cost and risk associated with providing DMV, in order to ensure the minimum disruption for customers while Product 2 develops, our pragmatic view is that the DMV should be permitted to exist until the next generation of UK-Link is up & running.

Following on from our assertion that a significant issue with users providing DME is one of matching service level to cost of provision, we intend to raise matter in the distribution Workstream and look at potential medium term solutions for the regulated daily meter read service.

Are there any new or additional issues that you believe should be recorded in the Modification Report?

No.

Relevant Objectives:

We agree with the statement in the Draft Modification Report that, if DMV is removed as an option from the UNC, then the effected customers will most probably default to NDM. As such, less gas will be settled on a daily basis and more capacity will be allocated by the algorithm rather than being booked. This will reduce the accuracy of cost allocation; hence implementation would have a detrimental impact on competition between shippers.

Impacts and Costs:

Implementation of the proposal will maintain the number of chargeable daily read equipment installed, thereby maintaining our revenue stream against this service line.

Implementation:

The proposal could be implemented with immediate affect.

Legal Text:

NGD is satisfied that the suggested text, as published by the Joint Office, within the Draft Modification Report meets the requirements of the Modification Proposal.

Is there anything further you wish to be taken into account?

No.

We trust that this information will assist in the compilation of the Final Modification Report.

Please contact me on 01926 653559 (alan.raper@nationalgrid.com) should you require any further information.

Yours sincerely,

Alan Raper
National Grid Gas, Distribution