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Your Reference 0136

Re: Modification Proposal 0136: 'Reconciliation following AQ Amendment where an SSP becomes an LSP prior to calculation of Provisional Annual Quantity'

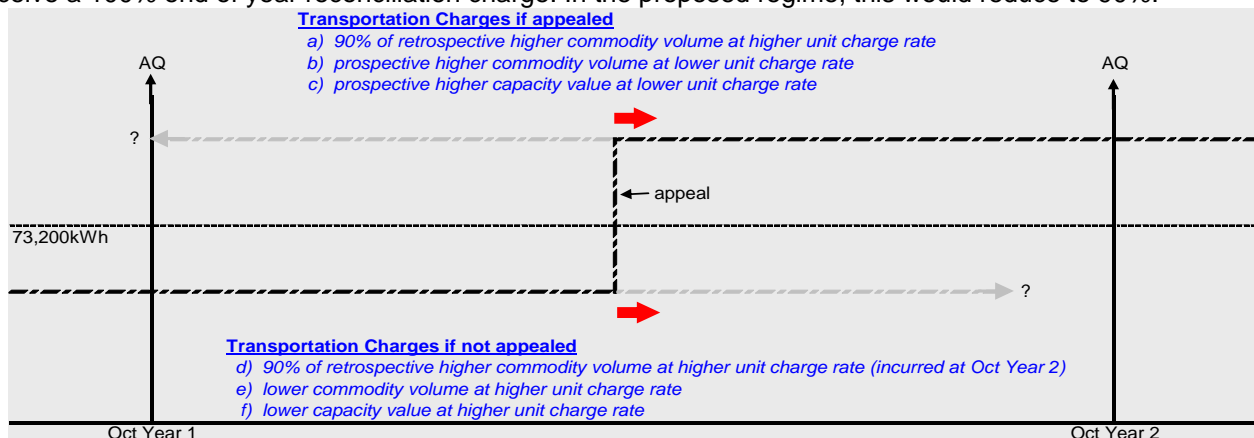
Dear Julian,

Thank you for your invitation seeking representations with respect to the above Modification Proposal. National Grid Gas (Distribution) ("NGD") opposes implementation on the basis that whilst implementation would potentially result in a greater quantity of reconciliations being processed, we remain to be convinced that the proposal would achieve the stated aim of maintaining an incentive for Users to pursue timely AQ appeals. We also question the rationale for choosing 90% as the proportion of the end of year reconciliation levied in respect of Supply Points appealed above the Larger Supply Point (LSP) threshold.

Maintaining the Incentive for Timely Appeal

The exclusion concerning inter process amendment of AQ was intended to encourage pro-active management of AQs during the year, so that understated AQs could be appealed in the early part of the year and avoid an end of year reconciliation under the 0640 regime. In respect of Modification Proposal 0096, we commented that a disadvantage of removal of this exclusion would be that there may be no incentive for early, pro-active correction. In the case of this Proposal, the proposer has sought to retain an incentive for pro-active correction by limiting financial exposure arising from any successful threshold crosser appeal to 90% of the relevant charges.

We do not believe that levying a proportional retrospective charge, regardless of the point in the year at which the AQ appeal is raised, would provide an incentive for timely appeals. Conversely there may be a cash flow benefit in leaving the AQ unchanged and actioning the appeal late in the gas year, or not at all. This decision may take into account the costs of $a+b+c$ in the following diagram against the costs of $d+e+f$. These economics may determine the timing of the appeal within year as opposed to at the point the shipper becomes aware of the customer's higher consumption. It is worthy of note that in the existing regime, where a User undertakes an AQ appeal following the commencement of the AQ calculation (or fails to make such an appeal), that User will receive a 100% end of year reconciliation charge. In the proposed regime, this would reduce to 90%.



Proportion of Reconciliation Levied

During discussion within the UNC Distribution Workstream, the proposer indicated that there was no specific analysis or rationale for electing to levy 90% of the end of year reconciliation. Whilst the lack of analysis or rationale for this 90% does not impact facilitation of the relevant objectives *per se*, the lack of such is arguably a weakness of this Proposal.

NGD has the following comments to make in respect of specific sections of the Draft Modification Report:

2. Extent to which implementation of the proposed modification would better facilitate the relevant objectives

On balance we conclude that the proposed measures would not improve the current provisions seeking the correct allocation of costs and therefore will not facilitate the securing of competition between shippers and between suppliers compared to prevailing provisions.

7. The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk

Contrary to the statement in the report, we believe that overall, a User's level of contractual risk would increase as a consequence of subjecting all LSP AQ threshold crossers to a proportion of the end of year reconciliation. Whilst those appeals raised in the later part of the year (following commencement of the AQ calculation for the following October) would be exposed to a 10% lower reconciliation charge, those raised before commencement of the AQ calculation would be subject to 90% of the charge as opposed to 0% of the charge under the prevailing exclusion.

We trust these comments will be useful for compilation of the Final Modification Report.

Please contact Chris Warner on 01926 653541 (chris.warner@uk.ngrid.com) should you require any further information with respect to the above.

Yours sincerely

Phil Lawton
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