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Your Reference 0136V

Re: Modification Proposal 0136V: '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") supports implementation. We support the fullest application of the annual reconciliation introduced by Modification 0640 and believe that this Proposal would potentially result in a greater quantity of reconciliations being processed.

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 raised prior to the commencement of the AQ recalculation to 90% of the relevant charges. We note that while this removes the ability to avoid the end of year reconciliation (instead affording a 10% discount on the full reconciliation charge) this provides a more equitable cost apportionment which we believe furthers the relevant objectives.

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 where an appeal is raised prior to the commencement of the AQ recalculation. 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 improve the current provisions by seeking a more accurate allocation of costs and therefore would 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 as those appeals raised before commencement of the AQ calculation would be subject to 90% of the end of year reconciliation 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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