

Mr. Julian Majdanski
Joint Office of Gas Transporters
Ground Floor R
Homer Road
Solihull
B91 3QJ

Phil Lawton
Manager – Regulation
phil.lawton@uk.ngrid.com

Direct tel +44 (0) 1926 656448
Direct fax +44 (0) 1926 656620

www.nationalgrid.com

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Dear Julian,

Modification Proposal 0125: 'Introduction of New Balancing Neutrality Charge for Cost of Residual Balancer Collateral on the OCM'

Thank you for your invitation seeking representations with respect to the above Modification Proposal. National Grid (UK Distribution), ("UKD") has the following comments to make with respect to the proposal:

The Proposal

UKD understands the commercial driver for NTS seeking to smear this cost to the community through energy balancing neutrality by a specific provision in the UNC. We believe it is appropriate that all necessary costs associated with carrying out licensed and contracted transportation activities undertaken by transporters are adequately funded.

This proposal results from the OCM operator, APX, applying for FSA authorisation for all the markets it operates; one particular requirement for authorisation is that the market in question is fully collateralised. Accordingly, should authorisation be granted, NTS as a market participant, would have to put in place security to the guarantee the gas trades it makes through APX in its role as residual balancer. NTS is obliged to be a market participant by virtue of its licensed obligation to undertake residual system balancing.

However, we would suggest that this scenario is already accounted for in the UNC and a modification proposal could have been avoided if NTS had applied provision F4.5.3(a)(v)(2). This rule allows NTS to include costs in the Monthly Adjustment Neutrality Amount arising from time to time by seeking Standard Special Condition A11(18) Approval from the Authority. We believe this matter could have been resolved by agreement between NTS and the Authority without modifying the UNC. Therefore, with this provision in mind, we believe this is effectively a funding issue and should be resolved between NTS and the Authority; accordingly we submit a neutral representation.

Yours sincerely

Phil Lawton
Distribution Regulation Manager