

John Bradley
UNC Mod Panel Secretary
Joint Office of Gas Transporters
31 Homer Road
Solihull
West Midlands
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Dear John,

Re: **UNC Modification Proposal 194 - Framework for correct apportionment of NDM error and Modification Proposal 194A – Framework for correct apportionment of LSP unidentified gas**

Thank you for the opportunity to respond to these Modification Proposals. Northern Gas Networks (NGN) agrees with the principle of both proposals and is encouraged by the industry acknowledgement of the issues being addressed within these modifications.

The current regime of using Reconciliation by Difference (RbD) to re-allocate energy, both debit and credit, from the Large Supply Point (LSP) market to the Small Supply Point (SSP) market has now been in place for some time. In principle, if all energy that flowed was known this mechanism would be a suitable method of ensuring that ultimately the energy was allocated to the correct market through this reconciliation. Both of the modifications, however, acknowledge that not all energy that has flowed will be correctly apportioned through this mechanism.

Issues such as theft of gas, late registration of sites, including orphaned sites and other adjustments currently flow into the SSP market as a result of reconciling the LSP market at meter point level. The energy resultant from these issues is effectively unreconcilable under the current regime, which by default places it into the SSP market.

All participants of the Development Work Group 194, including NGN, acknowledge that it is not appropriate that all of this energy remains in the SSP market and that some allocation of this should be borne by the LSP market.

Modification Proposal 194

Modification 194 proposes that an amount of energy, yet to be determined, is reallocated back to the LSP market using the existing RbD mechanism. The nature of RbD is unpredictable as movements in energy through the RbD mechanism is as a result of LSP meter point reconciliation.

Under this modification, a portion of the reconciled energy each month would flow back to the LSP market the following month. While over a prolonged period this would achieve a more equitable allocation of unreconciled energy resulting from theft of gas, late registration of sites,

including orphaned sites and other adjustments, to the relative markets, the RbD mechanism could create a situation whereby in a given month the flow of energy calculated using the 194 allocation energy could effectively flow from the SSP market to the LSP market. This is clearly not the intention of the modification, and as such represents a risk in using this mechanism.

This modification also places additional risk on some market participants as a result of the variability of the RbD mechanism. While the absolute value of this risk would be correctly shared in the long run, the mechanism could provide significant short term risks where a participant is unable to manage the variability of RbD.

Modification Proposal 194A

This alternative proposal also seeks to create a mechanism whereby the LSP market picks up a share of the unreconciled gas resultant from issues such as theft of gas, late registration of sites, including orphaned sites and other adjustments.

Under this proposal an annual amount of gas would be calculated and allocated to the LSP market on a straight line basis over the 12 month period. This would effectively remove the gas from the reconciliation process and ensure that it remains within the LSP market, even when individual meter points reconcile. The principles of this are noted by the proposer as being similar in nature to the Distribution Networks shrinkage regime and for the LSP participants has the advantage of being a predictable amount, making the management of account for this simpler.

Conclusions

NGN believes that while the principles of both modifications are the same, the proposed solutions are significantly different. NGN welcomes changes that will ensure equitable allocation of energy to the various market sectors and acknowledges that the method achieving this may have an impact on the relative competitive advantage of different parties.

While both modifications will effectively move a portion of the previously unreconciled energy to the LSP market, it is our belief that Modification Proposal 194A would better achieve the relevant objectives by mitigating the variability risk that Modification Proposal 194 places on some parties.

Yours sincerely,



Joanna Ferguson
Revenue and Credit Manager