

John Bradley
Joint Office of Gas Transporters
31 Homer Road
Solihull
B91 3LT

Richard Court
Commercial Manager, Distribution
Richard.court@uk.ngrid.com
Direct tel +44 (0)1926 65 6146

www.nationalgrid.com

06 November 2008
Your Reference: Modification Proposal 0225

Dear John

Re: Modification Proposal 0225 - Revised Timescales for LDZ Shrinkage Arrangements

Thank you for your invitation seeking representations with respect to the above Modification Proposal.

National Grid Gas (Distribution) (NGD) fully supports Proposal 0225.

Leakage is the major contributing factor of Shrinkage (typically, around 95%). Leakage calculations are carried out on a formula year basis. As a consequence of this, the leakage assessment doesn't easily fit in with the current Gas Year based UNC process. Aligning the UNC process to formula year will provide a better correlation between the procurement of Shrinkage, through the UNC process, and the assessment of leakage.

In addition to this, NGD acknowledges that the Gas Transporter Licences allow DNs to recover revenue for Shrinkage, and therefore provide an incentive, based on Shrinkage Quantities estimated on a formula year basis. However, Shrinkage Quantities to be procured are determined as a result of negotiations with Shippers via the UNC process. NGD believes that it is appropriate to align the UNC process to formula year to address the disparity that exists with the current Gas Year aligned UNC process.

NGD agrees with the Proposer that implementation of this Proposal will better facilitate the relevant objective detailed within *Standard Special Condition A11.1 (a): the efficient and economic operation of the pipe-line system to which this licence relates*, as (i) there would be a better alignment between gas procured over a formula year period, following UNC negotiations, and the estimated leakage for that period; and (ii) there would be alignment between the bases for collected Shrinkage Revenue and costs incurred as a result of Shrinkage Quantity negotiations via the UNC process.

NGD also acknowledges that implementation of this Proposal will reduce the time-period between the Shrinkage year end and the associated post-period financial adjustment from six months at present to four months under the proposed regime.

NGD agrees with the Proposer that implementation of this mod will better facilitate the relevant objective detailed within *Standard Special Condition A11.1 (d): so far as is consistent with subparagraphs (a) to (c) the securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers*; as there will be a shorter period between Shrinkage year end and the subsequent financial adjustment, four months rather than six, which would be as short as is practicably achievable.

There are no implementation costs/requirements for NGD associated with implementation of the Proposal and, therefore, NGD could implement as soon as the appropriate direction is issued by the Authority.

Please contact Kerri Matthews on 01926 655437 (kerri.matthews@uk.ngrid.com) should you require any further information with respect to the above.

Yours sincerely

Richard Court
Commercial Manager, Distribution.