

Mr John Bradley

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**UNC Modification Proposal 0229 –
“Mechanism for Correct Apportionment of Unidentified Gas”**

Dear John,

Thank you for your invitation seeking representation with respect to the above Modification Proposal, whilst we only offer **qualified support**, we support the aims of the proposal to introduce an Allocation of Unallocated Gas Expert (AUGE) to produce an Allocation of Unallocated Gas Statement (AUGS). We support that this proposal should be funded under User Pays arrangements.

National Grid NTS is specifically responding to this consultation with regards to the arrangements for the appointment of the third party to calculate the appropriate levels and allocation of unidentified gas. Our concerns in this area are two fold:

1. Obligation on all gas transporters to appoint the third party, and
2. Contractual arrangements.

1. Obligation on all Gas Transporters to appoint the third party

To date, National Grid NTS has not been involved in the debate around the correct apportionment of unidentified gas/energy; has not participated in Modification Proposal 0194 Development Workgroup or provided views on either of Modification Proposals 0194 or 0194A as these proposals relate to Supply Points which are not connected to the NTS system.

Following inferences from some gas market participants (not the Proposer of 0229) that National Grid NTS is best placed to appoint the third party (AUGE), we would like to take the opportunity to clarify our views on this issue.

Whilst we appreciate being considered for this role we do not believe that National Grid NTS is best placed to be involved in the appointment of a third party to calculate the appropriate levels and allocation of unidentified gas to Supply Points connected within other Transporters' Networks. We do not agree that there is a link between National Grid NTS

undertaking the within day Residual Balancing role¹ on behalf of Users and the apportionment of unaccounted for gas after the Day. We also believe that just because Mod 0229 is only related to energy and not Transportation Charges, it should preclude other Transporters from undertaking this role. The principle reasons for this view are as follows:

- All the measurement error issues identified (theft, unreported meter by-pass, late confirmations, unregistered or orphaned sites, etc.) apply to DNO or IGT sites within the Small Supply Point (SSP) or Large Supply Point (LSP) sectors. Modification Proposal 0194 specifically excludes NTS Supply Points from any application of the apportionment methodology.
- We understand that the proposed reapportionment of energy is related to the above measurement errors and has not been caused by the adjustment of energy entering the LDZ from the NTS.

Although we sympathise with the challenges associated to whom would be best placed to run the tender for the appointment of a third party that can manage this process, the reapportionment of such energy across SSP and LSP sector is an area of the UNC that NG NTS does not have any expertise in. We therefore do not believe that we are best placed to undertake this type of tender. The obligation to appoint an AUGE should therefore not sit with all Gas Transporters, but be limited to the parties involved in, and able to affect, the existing processes, i.e. Distribution Network Operators (DNOs) and or Shippers.

2. Contractual Arrangements

We acknowledge that DNOs have already provided to the May 2009 Distribution Workstream a letter detailing their concerns regarding the proposed contractual arrangements. Their main concern relates to the liabilities that may arise as a consequence of gas transporters being obliged by the UNC to enter into a contract for services with a third party, without having full control of the arrangements – the UNC Committee² has the ability to influence the tender process and the contractual arrangements between the gas transporters and the third party. Firstly the tendering process would not normally be performed by gas transporters, it is really one that should be undertaken by Shippers given its effect on them but we appreciate the administrative difficulties this may entail. If gas transporters do assist as an administrator of this process, it is only reasonable that they should not incur any liability in doing so. It should also be recognised that gas transporters would not have full control over the AUGS. Therefore this should be reflected within the UNC by ensuring this is a no liability arrangement.

The following is an extract from Appendix 1 Section 5 Generic Terms of Reference for Appointed AUGE:

The AUGE's final determination shall be binding on Shippers (with supply point capacity) except in the event of fraud or where the Committee considers, with reference to the requirements in Attachment 1, it so clearly erroneous for it to be applicable.

¹ As the Energy Balancing Transporter, National Grid NTS, has licence and UNC obligations to undertake the Residual Balancing role to ensure the physical balance of the total system is maintained each day. This is achieved by taking Market Balancing Actions during and at the end of each gas day.

² "The Committee" – The UNC or an authorised technical workstream or sub committee appointed by the UNCC to administer the AUGS process

2

Save for the paragraph above, no Shipper (with supply point capacity) shall commence legal proceedings in respect of the AUGE's findings.

The AUGE shall limit the extent of any legal proceedings to recovery of its fees as contained in its contract with the Gas Transporters.

Given the level of involvement the Committee will have in agreeing the AUGS, we believe that the gas transporters should have no responsibility in connection with this. National Grid NTS believes that the above needs to be amended to reflect this and ensure that all potential liability would be borne by Users and that they will indemnify the gas transporters from any legal action that may result from the appointment of the AUGE or production of the AUGS. Unless the above concern is addressed then National Grid NTS would not support the proposal that the third party will be employed by gas transporters at Users' cost.

Please let me know if you require any further information to enable preparation of the Final Modification Report.

Yours sincerely,

Chris Shanley
Senior Commercial Analyst