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9<sup>th</sup> December, 2008.

Your Reference: Modification Proposals 0233, 0234 & 0235

Dear John,

**Re: Modification Proposals 0233: 'Changes to Outstanding Energy Balancing Indebtedness Calculation', 0234: 'To Correct Drafting Inconsistencies between Section X and V of the UNC in Respect of User Default and Termination'. 0235: Recovery of Debt and Smearing of Revenues via Energy Balancing Neutrality'.**

Thank you for your invitation seeking representations with respect to the above Uniform Network Code (UNC) Modification Proposals.

National Grid Gas Distribution plc (NGD) would like to offer support for all three.

The first of these **0233: 'Changes to outstanding Energy Balancing Indebtedness Calculation'**, would allow a User to appeal its Outstanding Relevant Indebtedness on the basis of more up to date information. This would prevent unnecessary cash calls and the possibility of placing the User in default. The proposal would also permit National Grid (NTS) to raise adjustments and replace the values in the formula if it had more up-to-date information in its systems. This would help protect Users given the availability of relevant information i.e. it would facilitate more accurate decision making.

We note that the proposal refers to the automation by "Transporters" of some of the current manual processes. NGD is not aware, at this stage, of what would be required or the costs of any automation and whether this would be necessary or efficient.

NGD's opinion is that this proposal would be an improvement on the current process which does not allow the User to appeal against its "actual" balance and would better facilitate SSC A 11.1 (c)... the efficient discharge of the licensee's obligations under this licence.

The second proposal **0234: 'To Correct Drafting Inconsistencies between Sections X and V of the UNC in Respect of User Default and Termination'** is aimed at addressing current inconsistencies between V (Transportation) and X (Energy). Section V allows termination on the day of the relevant notice expiry whilst Section X currently only permits termination on the following day. Implementation of the Modification Proposal would align the two sections. It is also proposed that the following circumstances be added to the list of reasons why a User would be in default under Section V4.3.1: in relation to energy (Section X) a failure to pay a cash call (X2.9.3); a failure to provide further security (X2.10.10); and failure to make payment (X3.2.2).

On the basis that the current drafting within the relevant Sections of X and V is perceived to be inconsistent, we believe implementation of this proposal would better facilitate SSC A11.1 (f) ...the promotion of efficiency in the implementation ... of the ..Uniform Network Code. We also consider that implementation would reduce risk to Users by reducing their exposure to debt which would better facilitate SSC A11.1 (d) (i) .. the securing of effective competition between relevant Shippers.

The third proposal **0235: 'Recovery of Debt and Smearing of Revenues via Energy Balancing Neutrality'** would permit all the balancing charges for a defaulting User, detailed in F 4.5.3 a (ii), which are calculated at M-2 but were still outstanding at M to be allocated to existing Users based on the ratio of their UDQIs and UDQOs compared to that for all Users (excluding the defaulting Users). The charges would be billed as Ad-hoc Neutrality under the ADS charge. Any further Monthly Adjustment Neutrality Amounts or Adjustment Reconciliation Amounts incurred as a result of recovery steps would also be charged to existing Users in the same way. This would address the issues/inequities that can result from the current charging/payment method which does not account for the change in throughput and portfolio changes for Shippers, and may cause particular issues for a new entrant to the market.

We believe that implementation of this proposal would better facilitate SSC A11.1 (c) .. the efficient discharge of the licensee's obligations under this licence... on the basis that costs may be more accurately/equitably targeted. We also believe, that it would better facilitate SSC A11.1 (d) (i) .. the securing of effective competition between relevant Shippers on the basis that implementation may remove a potential barrier to entry for new Shippers in the market. NGD's view is that the proposed amendments would help to avoid undue penalty for Users who were not active during the period of the default. Of note the principles in this proposal are similar to those identified within Modification 0171 "Amendment of "User SP Aggregate Reconciliation Proportion" to incorporate historical AQ Proportions".

Please contact Alison Chamberlain on 01926 653994 (alison.chamberlain@uk.ngrid.com) should you require any further information with respect to the above.

Yours sincerely

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