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13th January, 2009.

Your Reference: Modification Proposal 0240.

Re: Modification Proposal 0240: 'Promoting Competition in Operating Margins Provision'

Dear John,

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

National Grid Gas plc (Distribution) would like to offer support for this proposal.

Special Condition C25 has been introduced into National Grid's Gas Transporter Licence which requires NTS to use reasonable endeavours to promote competition in the provision of Operating Margin (OM) services by 1st April 2009.

Distribution believes that the key changes proposed are as follows:

- Currently NTS specifies and procures its OM requirements based on "storage year". This will be changed to a more generic term of "Operating Margins Year" which will be defined at the time of procurement.
- The definition of Operating Margins Gas Delivery Arrangements will have to be expanded to include NTS connected supply and demand sources.
- The role of the Operating Margins Manager will be clarified.
- NTS proposes to have more flexibility in relation to the rights to dispose of, or terminate, OM Capacity Arrangements and OM Gas Delivery Arrangements. Storage Capacity may be sold onto a third party and alternative arrangements entered into within the Operating Margins Year and a change in requirement for OM Capacity Arrangements may require NTS to procure or dispose of gas in storage.
- Pre-storage year transfers and the sale of gas as a result of termination, sale or transfer of OM Capacity Arrangements is proposed to be consistently included within the Closing Margins Adjustment Charge.
- Where use of OMs is currently restricted to the Gas Day for meeting Operational balancing resulting from damage or failure of the NTS it is proposed that this should be for 24 hours following the failure.
- The Proposal also seeks to address some existing Section K drafting errors.

Distribution agrees with the points put forward in the Draft Modification Report in relation to the better facilitation of the relevant objectives, specifically Standard Special Conditions A11.1 (a), (c) and (d).

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

Richard Court
Commercial Manager, Distribution.