National Grid House
Warwick Technology Park
Gallows Hill, Warwick
CV34 6DA

National Gas Emergency Service - 0800 111 999* (24hrs)
*calls will be recorded and may be monitored

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

Chris Warner
Network Code Manager,
Distribution
chris.warner@uk.ngrid.com
Direct tel +44 (0)1926 65 3541

www.nationalgrid.com

3rd December 2009.
Your Reference: Modification Proposal 0275.

Re: Urgent Modification Proposal 0275 'Reduction in DM LDZ Exit Capacity for Supply Points with Significant Changes in Usage'.

Dear John,

Thank you for your invitation seeking representations with respect to the above Modification Proposal. As proposer, National Grid Gas plc (Distribution) ('NGD') would like to offer support for its implementation.

We raised Review Proposal 0264 promptly following Ofgem's comments contained in its rejection letter for UNC Modification Proposals 0244/0244A and 0244B.

The Review Group considered the circumstances under which so called 'transitional relief' might be made available to Users (shippers) in terms of the LDZ Capacity Charges they incur. This was deemed to be necessary as a measure to mitigate the limiting effects of the LDZ Exit Capacity regime and specifically the Bottom Stop Supply Point Capacity (BSSOQ) variable. This is explained as follows:

Under the existing terms of the UNC, a Registered User's Supply Point Capacity at a Daily Metered (DM) Supply Point is not permitted to be at any time less than the BSSOQ, and may only be reduced (below the prevailing Supply Point Capacity) within the Capacity Reduction Period.

The BSSOQ is the peak day consumption (at the Supply Point) within the previous winter period (October to May inclusive) and the revised value is implemented with effect from 1 October (subsequent to the relevant winter period). As a consequence in the worst case scenario the current process may result in the peak day winter consumption influencing the BSSOQ for up to two years. The following diagram illustrates this:

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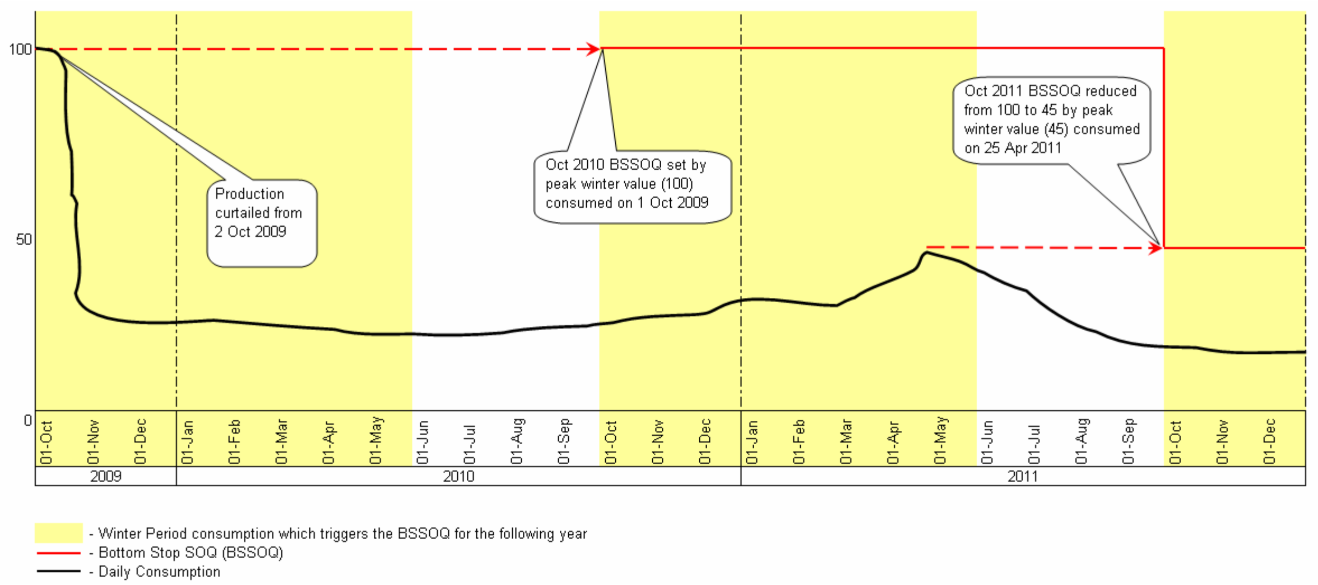

The Capacity Reduction Period is the period October to January (inclusive).

Within the current economic climate we are informed that a number of Industrial and Commercial consumers are reducing their levels of production by either mothballing plant or reducing production, or as a consequence premises may become part vacant in the short to medium term. Whilst the UNC allows Users to efficiently cease registration at a Supply Point via the Isolation and Withdrawal process, the restrictions on the reduction (as opposed to surrender) of capacity outlined above do not allow Users to reflect the reduced demand within the Transportation Charges levied by Transporters in a timely manner. As identified above this may take up to 2 years due to the current timings of the revision of BSSOQs.

Following on from discussions in the Review Group, in collaboration with Corona Energy, we drafted this Modification Proposal which identifies a mechanism by which transitional relief might be made available to Users in terms of the LDZ Capacity Charges they incur. This is achieved by providing Users with a mechanism by which the BSSOQ may be adjusted subject to certain warranties being provided.

The draft Proposal was tabled by NGD at the Review Group and it was acknowledged that this was a solution which could be implemented at relatively short notice.

We initially chose to delay formally raising the Proposal as Ofgem made clear in the Review Group its expectation that evidence of need must be demonstrated for any such Modification to receive its approval.

We have consistently stressed the need for the shipping and consumer communities to help us provide the evidence of this need. We explicitly wrote to our customers, through a letter issued by the Joint Office of Gas Transporters seeking relevant information. Some evidence has emerged from this request although it was limited and we also noted that some consumers were concerned over commercial confidentiality issues around industry parties potentially viewing their future plans. With this in mind the option of parties being able to provide information directly to Ofgem was made available.

NGD subsequently produced relevant analysis including possible consequential financial impacts on the NDM market, based on the responses it received, which has been published by the Joint Office of Gas Transporters. In summary we indicated the impact to be no more than £7.2m per annum in respect of National Grid Networks. Therefore in respect of the current Gas Year, in the event of implementation from January, the benefits could be realised over a 9 month period only (£5.4m) which represents an increase in Transportation charges of the magnitude of 0.35% to all Users.

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We are aware of various recent industry discussions where end consumers have continued to express their concerns including those occurring at the Demand Side Working Group and Business Energy Forum. Therefore, following the meeting of Review Group 0264 held on 13th November 2009 at which there was end consumer representation, we elected to raise Modification Proposal 0275 seeking that urgent procedures be applied which Ofgem subsequently granted on 17th November 2009.

As we describe within the Modification Proposal, NGD's view is that this Proposal would enable Users to reduce their capacity bookings at DM Supply Meter Points in line with their LDZ exit capacity requirements for Gas Year commencing October 2009 and/or October 2010. This should improve the cost reflectivity of the regime within this period. This can be expected to facilitate DNO Licence 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.

We recognise that in respect of Proposals 0244, 0224A and 0244B that sought similar changes, Ofgem expressed concern in respect of the potential detrimental impacts upon:

• the efficient operation of systems (SSC A11(b))

• efficient discharge of licence obligations (in respect of the charging methodology) (SSC A11(c)), and;

• effective competition between shippers (SSC A11(d).

We believe that the process controls proposed (including a 'catch up' mechanism) allied to the transitional nature of such arrangements will mean that the proposed arrangements would not have any adverse consequences to the relevant objectives specified above.

In addition to the consideration of an interim solution to this matter, NGD has also prepared a suite of detailed business rules and a further draft UNC Modification Proposal which was also discussed at the last Review Group 0264 meeting. These concern the Review Group's aspirations for developing an enduring LDZ exit capacity regime in anticipation of the implementation of Interruption reform in October 2011. We have sought feedback and this will be reviewed at the next meeting of Review Group 0264.

NGD understands the concerns raised by the end consumers and we believe this Proposal, if implemented, would introduce an appropriate mechanism to address these in the short term.

We trust that this information will assist in the compilation of the Final Modification Report.

Please contact me on 01926 653541 (chris.warner@uk.ngrid.com) should you require any further information.

Yours sincerely,

Chris Warner
Network Code Manager, Distribution.