

The Joint Office, Relevant
Gas Transporters, shippers and other
interested parties

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Dear Colleague

Re: Consultation on “The Entry Capacity Substitution Methodology Statement”.

Special Condition C8D of National Grid Gas plc’s (“National Grid”) Gas Transporter Licence in respect of the NTS (the “Licence”) sets out obligations to prepare and submit for approval by the Authority an entry capacity substitution methodology statement setting out the methodology that National Grid will use to facilitate entry capacity substitution.

Through a process that included a series of industry workshops and informal consultations National Grid has developed a methodology that we consider best meets the requirements of the Licence whilst addressing the concerns expressed by industry players. Workshop presentations can be found on the Joint Office website at <http://www.gasgovernance.com/Code/Workstreams/TransmissionWorkstream/> and consultation papers can be found on the National Grid website at <http://www.nationalgrid.com/uk/Gas/Charges/statements/transportation/ecms/>

Towards the conclusion of the process National Grid ran an informal consultation over May/June 2009 which asked for views on three potential methodologies including the “Options Approach” and National Grid’s formal proposals are based on this methodology. To avoid confusion with other option products associated with entry capacity National Grid has replaced options terminology with “retainer” which more accurately describes the role of this product.

In accordance with the above Licence condition National Grid is required to consult on its proposals before submitting them to the Authority. This letter therefore provides notice of the proposed Entry Capacity Substitution Methodology Statement and invites views on the proposal. A copy of the proposed methodology statement accompanies this letter.

The proposed methodology includes the introduction of a new charge in respect of the retainer. The rate applicable to this charge, its derivation, and treatment of associated revenues will be the subject of a separate consultation. This charging consultation: “GCM018 – NTS Entry Capacity Retention Charges” will be placed on National Grid’s website at <http://www.nationalgrid.com/uk/Gas/Charges/consultations/CurrentPapers/>.

In addition, to facilitate the raising of invoices in respect of the proposed new charge, a UNC modification proposal is being prepared. This will be discussed at Transmission Workstream meeting on 6th August 2009 and will subsequently, subject to agreement of the workstream meeting and UNC Modification Panel, be available for consultation.

Also at the Transmission Workstream meeting on 6th August 2009 National Grid intends to present the proposed substitution methodology with examples of how the retainers would work. Whilst encouraging feedback on the entirety of the methodology statement National Grid would

appreciate specific comments on this aspect of the methodology. Specifically, views are sought on whether a longer term retainer, e.g. to prevent substitution over multiple years, would be a useful additional product that could be developed for future years. National Grid would also appreciate comments on whether it is appropriate to apply an exchange rate cap to the substitution process when Users are able to protect their future capacity requirements by taking out a retainer.

Responses to this consultation should arrive at National Grid by 17:00 on 24th August 2009. They should be sent by e-mail to:

box.transmissioncapacityandcharging@uk.ngrid.com.

Please copy to andrew.fox@uk.ngrid.com and request a "read receipt" to confirm delivery.

Alternatively they can be sent by post to the above address marked for the attention of:

"Andrew Fox
UKT Commercial – Floor B3"

Responses will be placed on National Grid's website and incorporated within the consultation conclusions report. If you wish your response to be treated as confidential then please mark it clearly to that effect.

Yours sincerely

Andrew Fox