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Dear Paul,

**Response to Gas Transmission Transportation Charging Methodology Discussion Paper NTS GCD02: Introduction of NTS Exit (Flexibility) Capacity and Commodity Charges under the Enduring Offtake Arrangements**

This response is on behalf of National Grid's distribution business and is structured in line with the five points for discussion set out in section 6 of the discussion document.

1. We support the use of a zero reserve price for all NTS exit zones for the annual auction of NTS Exit (Flexibility) Capacity.

2. We support the use of the same reserve price for daily NTS Exit (Flexibility) Capacity as for the annual auction of NTS Exit (Flexibility) Capacity.

3. We do not support the introduction of a NTS SO Exit (Flexibility) Commodity charge. The paper refers to hypothetical costs that NTS might incur if Users made use of their booked flow flexibility in particular ways, for example if all parties profiled their flows simultaneously across the NTS. However there is no evidence provided that NTS flow flexibility has ever been used in this way to date (when there has effectively been no charge for it) nor that parties are likely to use their booked flow flexibility in this way. We consider therefore that, at this time, this introduction of this charge would not be line with NTS' prime charging methodology Licence obligation, to reflect its costs incurred, since it has not been shown that any costs have been or are likely to be incurred through the use of existing NTS flow flexibility.

   In addition, as a general principle, we feel that charging arrangements should not be more complex than necessary. In this case, a charge is being considered for introduction, with implementation costs for NTS and Users that may be disproportionate to any benefits obtained, particularly since these are highly uncertain at this time. We consider therefore that it would be inappropriate to introduce this charge for 2010. If necessary, once the system is operating under the new arrangements such a charge could be proposed for introduction if the actual usage of flow flexibility is leading to costs being incurred by NTS. This would also enable the level of the charge to be set on a realistic basis rather than on a hypothetical cost basis.

4. We support the use of a common adjustment factor to manage under- or over-recovery.

5. We support the targeting of the NTS SO Exit Commodity rate(s) to recover 50% of the SO allowable revenue. Given that we oppose the introduction of a SO Exit (Flexibility) commodity charge at this time, we consider that this should apply solely to the NTS SO Exit (Flat) Commodity charge.

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Yours sincerely,

Steve Armstrong