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Dear Paul,

Response to Gas Transmission Transportation Charging Methodology Consultation Document NTS GCM01: Alternative Methodologies for Determination of NTS Entry and Exit Capacity Prices

This response is on behalf of National Grid's distribution business.

As a Distribution Network operator we have an interest in the NTS exit charges in the period to 2010 since they impact upon our offtake capacity incentive. We also consider that the decision on the methodologies to be applied in the period up to 2010 needs to be considered alongside the decision on the methodologies to be applied in the period from 2010 onwards since it would seem to make little sense to introduce a different methodology for the next three years in respect of exit charges if this is not consistent with the longer term methodology.

With respect to the methodology used for determining exit charges, we consider that signals to Users regarding the long run marginal costs, and hence level and balance of exit charges, will be provided by the exit charges for the enduring regime from 2010 which are planned to be first made available in 2007. Even for any new exit loads connecting prior to 2010 the charges signalled in 2007 for the enduring period will be far more significant than the charges in the transitional years prior to 2010. There would therefore seem to be little point in introducing a new methodology for determining exit charges, or even rebalancing the exit charges in line with the existing methodology prior to 2010.

We therefore favour retaining the existing balance of exit charges for the next three years. Although it might be considered that this will not reflect the current costs well, we consider that, unless there are significant anomalies that need to be resolved, the benefits of stability and certainty of relative exit charge levels for the next three years outweigh any possible benefits from rebalancing exit charges. If exit charges were to be rebalanced in line with any of the proposed methodologies during the transitional period this would lead to charging uncertainty and to winners and losers amongst Users without any of the benefits of providing ongoing price signals, for the reasons already stated.

Although we favour retaining the existing balance of exit charges in the period prior to 2010 we see no reason for this to restrain the methodologies which might apply in respect of determining NTS entry capacity charges in this period.

Yours sincerely,

Steve Armstrong