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Dear Andrew

NTS Exit Capacity Release Methodology Statement in respect of the Interim and Transition Periods

Thank you for providing SGN with the opportunity to comment on the above document, setting out the methodology to be applied in relation to the release of existing and incremental NTS exit capacity from 1 April 2008 until 30 September 2012. SGN has a number of comments as detailed below.

Chapter 1 and Chapter 2: Principles and Procedure for Allocating Existing Exit Capacity

SGN is unclear as to what the document is suggesting National Grid's obligations are in relation to release of:

- baseline levels of capacity,
- existing levels of capacity and
- capacity allocated through UNC TPD Section G and Section B processes.

Chapter 1 sets out the high level principles applying to the release of all forms of NTS Exit Capacity for the interim and transitional periods. Paragraph 10 states that the methodology shall apply to "existing and incremental capacity". There is no definition of existing capacity under Appendix 1. We believe such a definition is required to add clarity to the Statement.

It is our understanding that within the context of Chapter 1 and Chapter 2, existing capacity is that capacity which can be made available without any incremental investment by NTS. Some of that capacity will already have been allocated to Shippers and DNO Users through UNC Section G and Section B processes. However there could be additional unallocated capacity that SGN believes should also be made available.

We note that paragraph 11 states that existing NTS Exit Capacity does not necessarily equate to NTS baseline levels as specified in Annex A, table 1 of Special Condition C8E of the Licence. It is our understanding that in a number of locations, existing capacity allocated to Shippers and DNO Users through Section G and Section B processes, is greater than that set in baselines under Licence. For the avoidance of doubt, where capacity has been allocated under Section G and Section B, we believe there is a firm contractual commitment and obligation for National Grid NTS to make that capacity available, whether above or below baseline.

It is also SGN's understanding that National Grid is obliged to release up to baseline, yet under the definition of NTS baseline capacity in Appendix 1, it states that in the absence of a full User commitment model for the interim and transitional periods, National Grid does not believe it has an obligation to offer NTS baseline capacity levels for sale. SGN does not agree with this position and would appreciate further clarification.

Chapter 3: Procedure for Allocating Incremental Exit Capacity

We note that under paragraph 30, where an application for incremental exit capacity could be expected to impair safe operation of the System and / or result in additional infrastructure or operating costs, National Grid will consider what mitigating actions could be undertaken.

It is suggested under paragraph 31 that mitigating actions that may be explored include the options of buying back NTS Offtake Flat and Flexibility Capacity from other DNO Users. SGN would appreciate some clarification of the circumstances under which buy back options would be considered and deemed to be economic or efficient. We would also appreciate clarification of the commercial process and arrangements by which buy back would be initiated and secured. We are not aware of any mechanisms which exist under the UNC. We are particularly interested in this option as a means of ensuring maximum use of capacity, in light of recent analysis presented by National Grid NTS suggesting NTS Offtake (Flexibility) Capacity could be likely to become increasingly constrained in coming years.

We would also appreciate clarification on the extent by costs, particularly operating costs, might influence National Grid NTS's decision to release incremental capacity, particularly in relation to NTS Offtake Flexibility Capacity to DNO Users. The focus previously has been on infrastructure costs. We understood that capacity would be released to the extent that it would be economic and efficient to do so. Paragraph 27 suggests capacity will be allocated where it is "economical to do so". However paragraph 29 explicitly states that NTS will only allocate incremental capacity if no costs are incurred.

Appendix 3: Process Flow Charts

Figure 1 and Figure 2 of Appendix 3 both suggest that where a request for "Flex Capacity" is received this will automatically be rejected. As above, we would appreciate clarification on this point. We would expect that where incremental capacity is requested, it would be released to the extent it is available, and / or below baseline and safe, economic and efficient to do so. Both diagrams appear to be inconsistent with various sections of text in Chapter 2 and 3.

A number of points raised above are fundamental. We would appreciate clarification as soon as possible and prior to 1st April 2008, as we are currently in the process of analysing DN interruption and capacity requirements for the DN Interruption tender process and OCS capacity booking process this summer. If you require any clarification or wish to discuss any of the points raised above, please contact me on one of the numbers detailed below.

Yours sincerely

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