16th March 2007

Robert Hull
Director, Transmission
Office of Gas and Electricity Markets
9 Millbank
London
SW1P 3GE

Dear Bob,

Re Notice under section 23(3) of the Gas Act 1986 – Revised Baselines for System Entry Capacity

Thank you for the opportunity to comment on the amendment to the Entry Baselines within the Transporter Licence, proposed under section 23(3) of the Gas Act 1986.

We understand that this is a necessary process in concluding the Transmission Price Control Review (TCPR) for 2007- 2012 and that this amendment must be in place for 1st April 2007.

CSL's primary concern centres on regulatory consistency and transparency which underpin good regulation. We wish to register our serious concerns about the way in which these revised baselines were arrived at and the consequential risk reward balance for National Grid.

Whilst we accept that Ofgem announced in the TPCR process that it was minded to change the method it used to calculate baselines from the theoretical maximum physical model to a practical maximum physical model, the extent to which the aggregate baseline level was reduced and the apportionment of that reduction was far from transparent.

As you will be aware the aggregate level of baseline capacity in both the Initial Proposals and Update Proposals (the last opportunity for Shippers to contribute to the consultation process) included a considerable uplift on current baseline capacity. CSL contests that no indication was given to market participants to prepare them for the circa 13% **reduction** that was contained within the Final Proposals.

The methodology adopted by Ofgem in relation to the apportionment of the baseline reduction was also far from transparent. From our recent meetings with David Howdon we now understand that where the practical maximum physical model identified a zonal constraint, ASEPs within that zone had their baselines reduced on a pro rata basis capped at the level of sold capacity after April 2007. We also understand that Ofgem did not take into account actual flows prior to implementing the reduction. This is another example of entry capacity methodologies being apparently changed in an opaque manner with no discussion with industry prior to agreeing the final price control with National Grid.

We expect that if regulatory rules change, and that as a result of those changes a dramatically different level of capacity is available to the market, then market participants have a reasonable expectation that the new rules will be openly communicated to the market before the final decision and that they will have an opportunity to respond.

We believe that every Price Control results in a package of measures which when taken together result in an overall balanced risk reward picture between market participants (customers) and National Grid. The overall package which we see today appears very much skewed in National Grid's favour. I refer you to the work undertaken by Ian Rowson on the cost of capital, tax and risk which was submitted as part of the consultation process. Whilst we acknowledge that Ofgem is not clear that the level of buyback risk in the period April 2007 – March 2012 is significantly different to the current period, we do not agree that the reduced baselines are consistent with the cost of capital. We believe that it is imperative that the transfer mechanism is flexible enough to redress the overall balance of risk reward to at least that seen during the last price control.

Finally, since there is no transparency in the process it is very difficult to comment on the way in which the entry charging methodology has been applied. We see this lack of transparency as a major issue going forward and urge Ofgem to consider wider transparency and information provision both during the next price control consultation and in the intervening period.

Yours sincerely

Roddy Monroe
Regulation Manager