

AW/PW/074

Indra Thillainathan
Ofgem
9 Millbank
London
SW1P 3GE

Cc: Joanna Whittington, Director – Gas Distribution

24 August 2007

Dear Indra

Re: Proposal to modify SSC A4, A5, D11 of the Gas Transporter licence

Overall, NGN is supportive of the proposals and we comment on each of the two proposals below.

Proposal to allow DNs to update distribution charges twice a year

This proposal will reduce volatility of charges as the April price change will enable DNs to set prices so that forecast collected revenue is in line with forecast allowed revenue for the formula year. Any adjustments due to differences between forecast and actuals for demand, shrinkage gas costs and repex incentive adjustment can then be reflected in a price change in October. This price change should be modest as prices will have been set at an appropriate level for the year as a whole. This compares to the current situation where prices charged between April and October are those current from the previous formula year and do not necessarily reflect current year allowed revenue.

As we have pointed out previously, it is essential to retain the ability to change prices in October to take account of variations between allowed and collected revenue since February when final notices for April price changes will have been submitted.

However, the proposal states that “this would better facilitate DNs in discharging their licence obligations with respect to setting charges such that they do not over or under recover against allowed revenue”. This is not the case as there is no change to the latest date that DNs can announce price changes in a formula year, ie 60 days before 1 October. Hence the risk of over or under recovering revenue is unchanged. A reduction of the 60 day final notice period to 30 days would (modestly) reduce this risk.

Proposal to reduce the indicative notice period from 150 days to three months

NGN agrees that this proposal will reduce the variation between indicative and definitive price changes as the gap will be reduced from three months to one month.

Please note that this response can be regarded as non-confidential.

Yours sincerely

A handwritten signature in black ink that reads "Alex Wiseman". The signature is written in a cursive style with a long, sweeping underline.

Alex Wiseman
Regulation Director