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Dear National Grid,

RE: Operating Margins: contestability update & incentives

Thank you for the opportunity to comment on National Grid's thinking around the future of contestability in the provision of Operating Margins (OM) gas. We are pleased to offer this brief response to the questions raised.

3.1 *Are there any other activities that National Grid could reasonably do to promote a contestable market and to make a successful safety case demonstration?*

We believe that there is a high level of awareness among shippers and other industry players (especially the larger ones who probably form the target market) that the provision of OM services is open to competition.

We are not aware of what discussions have already taken place between National Grid and the HSE in terms of the Safety Case, but if it has not already been done, we would certainly suggest asking the HSE what they themselves would be looking for when seeking to satisfy themselves about the robustness of any new arrangements. Further, should the HSE conclude that OM can only be delivered through stored gas, we would seek to understand in detail their objections, and how these might be overcome in future.

3.2 *What additional information would be useful if provided within National Grid's Invitation to Tender (ITT) documentation or Tender Information Report?*

Having been through the process once we believe that the documentation, and the additional support provided by National Grid, is satisfactory.

4.1 Has National Grid sufficiently articulated the requirement and potential market for OM services?

As above, we believe that the information provided in respect of OM requirements and potential providers is satisfactory.

4.2 *Do you believe the new provider types, if approved through the HSE Demonstration case, could form a significant component of future providers of OM?*
- NTS Industrial?
- NTS Power Stations?
- Supply Side (Excluding LNG Importation Facilities with Storage)?

We remain confident that OM contestability can deliver real benefits in terms of reduced costs to shippers (and therefore consumers). Whilst appetite for take up may vary between the above sectors, we continue to believe that between them, a significant proportion of future OM requirement can be met through these routes.

4.3 *Have you any comments in relation to the potential interaction between demand side provision of OM services and the electricity market?*

This is clearly most pertinent where gas fired electricity generators are the service providers. There are clearly a very wide range of potential circumstances, however, we can conceive of circumstances where there is a requirement for OM provided by CCGTs with very limited knock on effect on the electricity system either in terms of security of supply or indeed electricity prices.

5.1 *Does National Grid's proposed 2010 OM tender timescale affect, either positively or negatively, the ability for providers to participate?*

We believe that (within reason) the more time allowed for potential providers to submit their tender proposals, the higher the number of responses and the greater the degree of innovation that is likely to be seen throughout the process. To this end, we believe that the timescales set out on page 22 of the consultation document are achievable but challenging, and (subject to HSE review) would encourage a longer lead time in subsequent years.

5.2 *Is there any additional information which could be provided prior to the tender which would help potential providers in clarifying their position on whether to participate?*

We believe that the information provided is adequate. Having been through this process once, we valued the ability to talk directly to National Grid on a one-to-one basis. We consider that any additional information required by potential providers can be gained through this route, and National Grid should continue to promote this option.

6.1 *Is it appropriate to incentivise Operating Margins given the range of uncertainties? If so, what would be the most appropriate way (e.g. Cost minimisation) to incentivise Operating Margins?*

Where OM services are provided by the market place i.e. contestable services, National Grid should continue to procure the lowest appropriately priced service. We are still undecided about how any residual OM requirement should be priced e.g. whether through a financial incentive or regulatory oversight.

6.2 *Should the OM Incentive scheme continue to be separated into a 'Utilisation' and 'Availability' element?*

6.3 *Should National Grid be able to recover a return on the gas held in storage for OM purposes?*

6.4 *What would be an appropriate length of an incentive?*

We have not reached a conclusion on whether or how to incentivise National Grid. There are a large number of uncertainties that need to be considered and we will continue to think about these over the coming weeks.

Please contact me if you would like to discuss this response

Yours sincerely,

Chris Wright
Commercial Manager