



Mr Julian Majdanski
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c/o National Grid

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Dear Julian,

Re: UNC Modification Proposal 0071 and 0071a "User Compensation for NEC Storage Curtailment"

Thank you for the opportunity to comment on the Draft Modification Reports on these proposals.

British Gas Trading (BGT) does not support the implementation of the proposal or the alternate in this form at this time.

We recognise that Modification Proposal 0071 has been raised by National Grid (NTS) following implementation of Proposal 0052. The alternative raised by Eon UK seeks to further modify the application of Proposal 0052.

The intent of Proposal 0052 was to acknowledge and address the effect of a storage curtailment upon the provision that had been made by a storage facility User in making prudent arrangements for supply of gas to their portfolio. In essence, a curtailment would render this provision unavailable to the User in balancing their supply/demand on a day where gas was in short supply. Such curtailment, without the remedy provided by implementation of Proposal 0052, would have undermined the prudent operation of a shipper in putting gas into storage and has a severe impact upon the value of that provision.

For these reasons we were supportive of Proposal 0052 and welcomed it's implementation.

Notwithstanding the wide support for the implementation of Proposal 0052, it is accepted that there were issues concerned with the assessment of the true value of the gas retained in store by a curtailment and the title of that gas following such a curtailment trade. These were among those issues raised within Ofgem's decision letter on Proposal 0052.

In respect of these proposals specifically, we do not believe that the implementation of either is in the best interest of the industry at this time.

National Grid (NTS) proposal 0071

In many ways implementation of this proposal would re-introduce much of the difficulty that pertained prior to proposal 0052. The proposal would apply a valuation of the gas based upon SAP less average summer price plus a proxy cost of storage booking and injection/withdrawal. This would grossly undervalue the energy which would have been available to the User had a curtailment not been applied. We share the view, expressed widely by attendees of the recent workstream, that this value must include the marginal price of

the day if it is properly to reflect the exposure that the User is subject to should the gas not be available to address their balance position.

Eon UK proposal 0071a (alternate)

We applaud the proposer in seeking to provide a “quick-fix” remedy to address the difficulty in arriving at a true value of the gas retained within the storage facility by curtailment as an alternate to proposal 0071. We believe that there is merit in the design and application of an adjustment mechanism after the event. However, whilst we commend the intent we do not believe that the wider community has had sufficient time and opportunity to fully consider the manner in which this would be applied.

In summary, we strongly oppose the implementation of Proposal 0071 as it does not further relevant objective

paragraph 1.a) “the efficient and economic operation of the pipe-line system”

Nor does it further

paragraph 1.e) “the provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards are satisfied as respects the availability of gas to their domestic customers

as it would severely undermine the prudent provision made by a User in anticipation of the requirement for gas in storage.

As mentioned, although we would be supportive of some retrospective adjustment mechanism to reflect a more accurate assessment of the true value, we believe that this proposal would benefit by more detailed and considered debate.

We trust that you find these comments useful but if you wish to discuss them further please do not hesitate to contact me.

Yours sincerely,

Mike Young
Commercial Manager