

8th February 2008

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Dear Julian,

RE: Modification Proposal 0187 – “Alterations to the RMSEC Auction to Accommodate Transfer and Trade of Capacity between ASEPs”
&
Modification Proposal 0187A – “Alterations to the RMSEC Auction to Accommodate Transfer and Trade of Capacity between ASEPs”

Thank you for the opportunity to comment on the above Modification Proposals.

Centrica Storage Ltd (CSL) does not support the implementation of NGG's Modification Proposal 0187.

CSL does support the implementation of BGT's Modification Proposal 0187A.

Our reasons for our support of the BGT proposal are set out below.

Both modification proposals are essentially the same apart from two aspects; firstly the BGT mod allows Users to set a reserve price on surrendered capacity as opposed to having a surrender price cap set at the prevailing reserve price at the ASEP in question. Secondly the BGT mod proposes to allocate the cheapest available capacity first as opposed to the NGG mod which proposes to allocate expensive first and to allocate surrendered capacity before unsold.

Both modification proposals allow 'sterilised' capacity at an ASEP to be acquired by Users at that ASEP before being made available, via the T&T auction, to other ASEPs. CSL is concerned that this will limit the movement of capacity to where it is most highly valued. BGT's proposal partially mitigates this by allowing Users to set a reserve price on surrendered capacity which will allow the market to decide where this capacity is moved to. We believe that this is more in keeping with Ofgem's position outlined in its decision letter on the interim T&T process where it expressed the view that an advantage of UNC mods 56/156A/169 was that they would result in capacity being allocated to where Users value it most. Further Ofgem also stated that the Scottish Power proposal UNC169A (which proposed that all available capacity would be first allocated at the ASEP where it was originally made available) was rejected because it would have allowed Users to obtain capacity at a price not related to current market value. We believe that NGG's proposal, whereby Users are not allowed to set a market related price on surrendered capacity would result in capacity being sold on

preferential terms at the ASEP where it was originally made available rather than being transferred or traded to another ASEP where it is more highly valued. This would not be the most efficient means of allocating capacity.

With regard to the ranking of capacity for trade or transfer, we believe that the movement of the lowest cost capacity first, as proposed by BGT, will lead to a more efficient outcome.

Whilst CSL supports the BGT modification proposal we have two generic concerns; firstly regarding transparency, the second regarding the trading of sold capacity.

With regard to transparency, both proposals do little in the way of reducing the asymmetry of information between NGG and Shippers, indeed both may be seen as a retrograde step when compared to the interim process. The evident failure of the interim process, where we understand that in some instances, ex ante exchange rates led to 60% of available capacity not being transferred, has effectively forced Shippers to accept the use of ex post exchange rates in the enduring regime. Given the 'black box' nature of NGG's modelling analysis employed in determining exchange rates, we believe that NGG will need to ameliorate this lack of transparency by formulating a process to externally audit the enduring arrangements to ensure that capacity was transferred at an appropriate exchange rate commensurate with the risk levels.

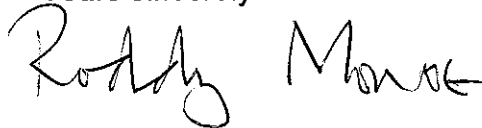
Secondly, we believe that neither proposal fully meets the policy intention of the trading capacity obligation and adequately addresses the need to provide long term and short term flexibility. We believe that following the implementation of the enduring regime a further proposal will be required to facilitate ASEP to ASEP trades. This will provide clarity and certainty to those shippers who need to plan further ahead than the RMSEC auction will allow.

To conclude, CSL considers that UNC 187A will better facilitate the relevant objectives of:

- The efficient and economic operation of the pipe-line system to which this licence relates;
- The efficient discharge of the licensee's obligations under this licence;
- The securing of effective competition between relevant shippers; and
- 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

If you have any questions or queries regarding this response, please do not hesitate to contact me.

Yours sincerely



Roddy Monroe
Regulation Manager