

Mr. John Bradley
UNC Panel Secretary
Joint Office of Gas Transporters
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13 March 2009

Dear John,

RE: Modification Proposal 0243 “Amendments to the process for initialisation of Enduring NTS Exit (Flat) Capacity at the Moffat NTS Exit Point”

Thank you for the opportunity to comment on this proposal. British Gas offers the following comments.

This proposal seeks to modify the exit arrangements at Moffat, in that it seeks to defer initialisation of enduring capacity at Moffat. It also proposes the bringing forward of an ongoing regime which differs from the remainder of the NTS, possibly including a downstream certification element, although this would be subject to a further modification proposal.

This proposal has been raised at a very late stage of the protracted exit reform debate, and following a formal Ofgem decision on the 7 proposals available to it. As such, this proposal has not benefited from the extensive development and discussion that the other exit proposals have been subjected to. It has also not been part of the formal Ofgem Regulatory Impact Assessment consultation; this despite the issues at stake being recognised and unchanged throughout the post Competition Commission appeal stage.

We are sympathetic to claims that modification 0195AV will bring additional complexity to arrangements at Moffat. However, we are not convinced that the only effects of 0243 would be to resolve the matter of that additional complexity in isolation; neither are we yet convinced that there is no reasonable, alternative way of resolving that complexity. Rather, we wonder whether 0243 could give rise to additional issues. Within the timescales available we have not been able to fully assess the breadth or magnitude of these, but raise some thoughts below.

We are not persuaded that this proposal will necessarily give rise to greater liquidity at Moffat, as claimed. On the contrary, it could be argued, for example, that retaining a form of downstream certification, as envisaged, effectively limits the potential for parties to engage at Moffat in the medium and longer terms, unless they are prior certified; the uncertainty this modification gives rise to with respect to an enduring solution might dissuade some users or suppliers from entering into new contracts to flow gas via Moffat as they might reasonably have concerns about securing capacity to support this, i.e. enduring capacity cannot be procured from July 2009 or until such time as initialisation at Moffat has occurred.

This would mean that any user not initialised with enduring capacity at Moffat can only plan to hold enduring capacity, via July auctions, from 1 October 2014. This gives rise to an obvious advantage to shippers active in the downstream market at the time of certification. A large

number of other exit points also face the issue that capacity holders at initialisation may not necessarily be those facing the capacity requirement at the start of the enduring process.

Modification 0195AV recognises that different treatments should apply to different categories of NTS user i.e. DNs and directly connected customers. However, this proposal implicitly seeks to create a third specific category; an offtake supplying a separate regulated pipeline network(s). Whilst we recognise that this is factually correct, and indeed appears to be a unique situation on the NTS, there are questions about whether these are sufficient grounds for the creation of a third category of NTS user. Some issues addressed by this proposal also apply to some extent to other categories of users, for example storage facility or interconnector operators, and we ponder the extent to which implementation of this proposal might encourage calls for further change from other affected parties.

We are not convinced that a UNC modification is the only route available for addressing the concerns set out within this proposal, and wonder whether the key issues highlighted within this proposal could be resolved through other means. Indeed, we believe that modification 0195AV to some extent anticipates a number of these issues. We are not sure the extent to which other solutions have been thoroughly assessed and dismissed for good reason. For example, whether downstream users have attempted to address Moffat exit capacity issues via appropriate contractual routes with customers or whether downstream users have, *inter se*, sought to mitigate any perceived risks via capacity assignment or trading arrangements.

We note that changes to capacity regimes are being discussed at the wider European level with respect to equitable access to capacity, which may impact upon this proposal and/or the development of the enduring regime for Moffat, as trailed in this proposal. We are also still considering what interaction, if any, this proposal has on the current ExCR consultation process.

Should you have any queries with regard to this response please do not hesitate to contact me.

Yours sincerely,

Chris Wright
Commercial Manager