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Our Ref.
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Dear Julian,

RE: Modification Proposal 0163: "Offering capacity at Donor ASEP in Trades and Transfers process"

Thank you for the opportunity to comment on this proposal.

Whilst British Gas Trading (BGT) believes that elements of this proposal have some merit, we also believe that it would introduce a number of effects that could run counter to the long stated aims of this winter's Trades and Transfers process. We are therefore unable to offer our support.

Modification 0163 proposes that, for every ASEP, prior to the commencement of the process to move entry capacity around the NTS, Users are first given the opportunity to purchase all surrendered sold capacity at the ASEP at which it was surrendered. The price for all such purchases should be based on the price paid at auction.

First, we recognise that out of necessity this proposal has been developed with some rapidity, however we consider that the original proposal could have benefited from additional development. Whilst we welcome the proposer's efforts in clarifying the intent of the proposal, we believe that some confusion may still exist amongst Users, who have not been party to industry debate, about the effects of this proposal.

As discussed further below, one of the deficiencies of the 0156/A regime is that it occurs infrequently throughout the year, with the capacity in question having been offered some considerable time in advance (we would want to see this aspect corrected for the enduring solution). This forces Users to make capacity purchase decisions over a longer timeframe than would be the case without a Trades and Transfers process, in order to prevent that capacity from being transferred away before they have another chance to purchase it.

Proposal 0163 goes some way to remedying this by giving Users at some ASEPs a second opportunity to acquire that capacity prior to it being moved elsewhere. However, it does this in a way that we do not agree with.

Our main concern with 0163 is that a cornerstone principle of the Trades and Transfers process to date has been to place capacity where it is most valued. 0163 introduces a mechanism for Users at some sold out ASEPs to have preferential rights to capacity in advance of other Users, at a price that may not fully reflect prevailing market conditions.

We also believe that 0163 would undermine the rights of Users who have legitimately bought capacity in the 2007 AMSEC market process in order to transfer that capacity to another ASEP. The possibility of such bidding behaviour occurring was widely debated within a number of industry forums prior to the 2007 AMSEC auction rounds. BGT recalls two clear messages from those discussions:

- That, based upon the probability of a Trades and Transfers process being implemented for winter 2007, the AMSEC auction could be the final opportunity that Users would have to purchase entry capacity before possible changes to baseline allocations; and
- That buying capacity at an ASEP with a view to transferring it to another ASEP was a legitimate strategy, given the probability of a Trades and Transfers process.

Against this background, we believe that some Users will have acted on these signals, and bought capacity with an expectation of benefiting from that capacity at a different terminal.

It would therefore seem inequitable to implement a proposal which sought to remove that implicit right.

Following on from this point, we believe that under both 0156 and 0156A, all Users will be given the opportunity to buy and return capacity to the surrendering ASEP, albeit at a market price rather than at a price based upon what was originally paid, as suggested by 0163. Given the history of this process, and in particular considering the signals Users have already been given about buying capacity with a view to transferring it, 0156/A would appear to us to be the more equitable solution.

In terms of relevant objectives, we believe that this proposal could be detrimental in that it could harm competition between shippers by providing for some capacity to be traded at prices below a market rate.

We would, nevertheless, look forward to taking part in the development of an enduring solution to Trades and Transfers that better reflected the concerns expressed by 0163.

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

Yours sincerely,

Chris Wright
Commercial Manager