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Our Ref.  
Your Ref.

26 June 2007

Dear Julian,

RE: Modification Proposal 0149/149A: "Gas emergency Cashout Arrangements: Keeping the OCM open during a gas deficit emergency"

Thank you for the opportunity to comment on these two modification proposals. British Gas Trading (BGT) offers this single response for both proposals.

BGT offers qualified support for modification proposal 0149, but does not support proposal 0149A.

Assessing the individual merits of each of these two proposals is extremely difficult. Not only has the industry had no practical experience of managing a GDE, but there is also an extremely broad scope of issues that could give rise to a GDE, and also could transpire during a GDE. All of these could interact in different ways to produce different outcomes. It is also not clear the extent to which a market based approach would complement or conflict with a command and control situation.

BGT generally favours business certainty, and taken at face value 0149A would appear to better satisfy this requirement than 0149, by providing a fixed price cash out regime. However, in the case of the current imbalance cash out regime, which is to continue unchanged under proposal 0149A, we believe that the risks of excessively high cash out prices outweigh the benefits of price certainty.

One example of such a risk could occur where the gas supply situation is returning to normal, but the GDE is continuing due to insufficient gas in store. Under these circumstances, which we believe represent a credible scenario, a dynamic, market based price could only be viewed as more economic and efficient. To this extent, we believe that 0149 is the better of these two options.

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The qualification for our support, however, centres on the concerns expressed during workstream discussions about the potential for market manipulation. Whilst we recognise that certain safeguards exist to deter such behaviour, the existence of a GDE suggests that by definition, “normal” trading patterns are unlikely to prevail. We therefore believe that any market manipulation or abuse will be very difficult to identify and prove, with investigations potentially being prolonged and difficult.

We agree with the proposer of 0149 that implementation of this proposal could be expected to better facilitate the achievement of an economic and efficient pipeline system, and also the securing of effective competition between shippers.

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

Yours sincerely,

Chris Wright  
Commercial Manager