

Mr. Bob Fletcher
UNC Panel Secretary
Joint Office of Gas Transporters
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11 March 2011

Dear Bob,

RE: Modification proposal 0348: NTS Optional Commodity tariff – update to application rules

Thank you for the opportunity to respond to this consultation. British Gas Trading (BGT) offers the following comments.

This single proposal encompasses three separate changes to the UNC:

- 1) That the minimum distance between an ASEP and the relevant exit point shall always be used.
- 2) Remove the ability for NG to apply discretion in cases where an individual User might have a preferred “pecking order” of exit points for a single entry point shorthaul arrangement.
- 3) Remove the ability to apply shorthaul arrangements to flows into storage facilities.

Our views on these three aspects are sufficiently different that we are unable to come to an overall position on support or otherwise for the package as a whole. To this end, we believe it may have been better, with hindsight and following considerable further contemplation of the issues, to raise separate modification proposals to deal with each. Nevertheless, we set out some thoughts on each element below.

1. Use of minimum distance

At present, the UNC is silent on the exact geographical origination point for the calculation of a shorthaul arrangement. Therefore, where an aggregate system entry point consists of a number of individual system entry points covering a geographical spread, NGG is currently able to use discretion about the point of origination. This proposal is to codify that in all such cases, NGG will use the minimum distance between the ASEP and the relevant exit point.

We support this element of the proposal, and believe that removing the ambiguity which currently exists would be beneficial to the efficient administration of the network code. It would also remove any

residual scope for discrimination through the application of different shorthaul rules to different arrangements.

We are not clear from the modification proposal what arrangements have been put in place to advise shipper counterparties of any new shorthaul rates which might apply to their existing agreements, or the timing of these notifications. We believe this is important in order to allow shippers to pass through additional costs or savings to end consumers in a timely manner.

2. Removing scope for alternate allocations

At present shippers are able to request of NGG that gas entered at a specific entry point be apportioned among multi-shorthaul offtakes associated with the entry point in accordance with the shipper's instructions. This proposal seeks to remove from NGG any discretion on whether to consider and implement any such request, and instead codify that entered gas will be straightforwardly pro-rated between such exit points.

We believe there are legitimate reasons why a shipper might make such a request, and we do not accept that all of these reasons would constitute an abuse, or an undermining, of the rationale for shorthaul. For example, a User could construct 2 separate pipelines delivering gas from the same entry point to 2 separate NTS offtakes at a time of ample supply at the entry point. Over time the supply level at the entry point could reduce such that the full demand requirements of the 2 exit points cannot be fully satisfied. In such circumstances the User might then opt for a new connection and supply to one of the exit points, directly from the NTS (or NBP), to supplement the entry point supply. The choice of which of the 2 exit points to connect to the NTS would arguably reflect an economic decision similar to one where a User wants to set a pecking order for shorthaul.

Therefore, whilst removing NGG's discretion is in one sense helpful and clarifies the rules, we remain concerned that a justification for implementing this proposal is given as the potential cost and complexity of establishing IT systems to cope with shipper allocation requests. We do not believe that this is NGG's decision alone to make, and suggest that a much more appropriate and customer focused approach would have been to bring forward a proposal which offered shippers this optionality, alongside robust cost estimates, for shippers to then make a decision on the appropriateness of such a service, for themselves.

We accept that we are too late to raise an alternative to this proposal, although in any event such an alternative would require development beyond the timescales of this original proposal. We therefore believe there would be merit in a separate proposal requiring NGG to offer an allocation service to shorthaul users and are giving serious consideration to raising this.

3. Shorthaul to no longer apply to storage injections

Shipper Users are currently able to establish shorthaul arrangements where an entry point and a storage facility are within close proximity. This proposal seeks to remove that ability.

We believe that this element of proposal 0348 has potentially very wide implications (possibly going beyond the scope of the UNC), which have not been properly considered. For example, concerns have been expressed at government and regulator level about the scale of commodity security currently enjoyed by the GB market; in certain circumstances this is deemed to be inadequate.

One way of addressing a perceived shortfall in gas security standards is through increased use of gas storage, albeit that storage is in general not currently being developed and built as a result of poor price signals. We do not consider that the implications of this proposal on supply security have been

properly considered, and believe that a change of this nature could have far reaching ramifications were it to materially alter gas storage economics for the worse.

Therefore, with this concern in mind, we are unable to express an overall position until we have been able to understand the implications of this on the wider market.

Please contact me if you would like to discuss this response.

Yours sincerely,

Chris Wright
Commercial Manager