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Dear Julian

RE UNC Urgent Modification Proposal 0067 – Compensation payments to Users whose gas flows are curtailed into the system following instructions received from the NEC

Thank you for the opportunity to comment on this Modification Proposal.

We would first like to comment on the timing of this Modification Proposal. It has been commented a number of times at industry workstreams that it is very late in the year to be considering change to the operational processes affecting continuity of supplies over the winter months. Whilst we support the principles of the objectives of these modifications, it is not in the best interests of the industry to be dealing with changes of this nature at this time.

In order to meet their own licence obligations to meet demand requirements, certain suppliers through their Shippers will have made provision to hold volumes of gas in storage facilities. In recent months there have been a number of changes implemented that restrict the availability of this provision. These changes will dramatically affect the commercial assessment of making such provision. It would not be appropriate for a User, having made prudent provision to meet the demands of their portfolio, to suffer this exposure. This modification proposal seeks to introduce a process to compensate those Users that are unable to use gas that has been placed in a storage facility when flows have been curtailed due to the declaration of a Network Gas Supply Emergency (NGSE).

We recognise and commend the intent of this proposal that would establish a procedure for the appointment of an independent arbiter as claims reviewer to assess each case where a User has suffered a financial loss through such actions.

Although supportive of the principle behind this proposal, we believe that there is insufficient detail contained within the Modification to provide a workable solution in time for this winter.

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We have a number of particular concerns.

Firstly is the manner in which any compensation payments would be funded. If there are such costs to be incurred by the System Operator on behalf of the industry, it is not appropriate for these to be smeared across all Users. Such costs should be appropriately targetted to the cause.

As such actions will be taken by the NEC who would be taking control from the System Operator (SO), we also believe that this should be included within their incentive arrangements. This would serve to reinforce the expectation that all options open to the SO had been exercised prior to the declaration of a NGSE.

There is also the matter of the governance of these arrangements. To institute such a process would require the identification of a group of suitable persons that may act as claims reviewer and the maintenance of this register. There would also be a need for procedural documents to be prepared and agreed in order that all parties were clear on the process and outcome together with the scope, if any, for appeals against decisions.

In summary, although we are supportive of the objectives addressed by this proposal we do not believe that it provides a workable solution in its current form. However, we believe that there is merit in considering this further with view to developing a regime of this nature for a subsequent winter. In this respect we would add the comment that this would need to be resolved prior to the commencement of the next storage year and it would be advantageous if any changes were implemented by the end of March 2006.

Consequently, we are not supportive of the implementation of this Modification Proposal, as we do not believe that it furthers the relevant objectives of "addressing discrimination and enabling undistorted competition between relevant Shippers providing for the efficient and economic operation of the pipeline system".

Please contact me if you require any further information.

Yours sincerely,

Mike Young
Commercial Manager