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Dear Julian,

RE: Draft Modification Report 0101: Amendment to Demand Forecasting Timings in Relation to the Gas Balancing Alert

Thank you for the opportunity to comment upon this modification proposal.

Overall, British Gas Trading (BGT) offers qualified support to this modification proposal.

First, we support the alignment of the UNC with prevailing operational practices. This amounts to good house keeping, and will increase parties' confidence – and in particular new entrants – that the UNC is the definitive guide to system operation. Such a change must therefore facilitate the achievement of the relevant objective set out in Section A11.1(f), namely promoting efficiency in the implementation and administration of the UNC.

We also welcome the introduction of an SMS service to capture any GBA as a welcome additional service, although recognise that this service is planned for introduction as part of a scheduled service enhancement programme, and is not dependent upon this modification.

Our main concerns, however, centre around the effects that Gas Balancing Alerts (GBAs) have on market prices. An example of the resulting price volatility can be seen from the GBA of 13/03/06.

On the one hand, allowing National Grid additional opportunities at the day ahead stage to issue a GBA may allow the community to react to a potential supply deficit earlier. We can therefore see why, if NG is in receipt of additional information, it would want to take a cautious approach, undertake an adhoc demand run and issue a GBA alert if necessary.

On the other hand, we are concerned about the potentially disproportionate effects of a GBA on the market, and the relatively inflexible and opaque nature of the GBA.

The trigger for a GBA is where Forecast Total System Demand exceeds anticipated total system supplies. Our concern is around the extent to which all industry participants have access to, and an understanding of, these key data which underpin a GBA. A lack of either access or understanding is likely to increase the potential for market volatility, a situation we see as highly undesirable. We are also uncertain about the extent of any interplay between this modification, and the forthcoming implementation of modification 006 which seeks to release extensive new supply-side information into the market.

We also recognise that once issued, a GBA will remain in force for the remainder of the gas day whether or not the forecast system balance position has reverted to long. This potentially sets a dangerous headline, again risking market over-reaction.

Further, we believe that any significant increase in the use of GBAs over time, particularly against a background of lack of information as set out above, could blunt market response potentially at a time when a significant response is most needed.

On balance, however, we believe that the potential benefits of this modification – permitting earlier visibility of potential system stress, and ultimately earlier market response – outweigh the potential detriment of market over-reaction and price volatility. Part of this assessment is that, over the longer term, we believe that the market will “learn” that a GBA is not necessarily a reason for panic.

In as far as our assessment holds true, we believe that the relevant objective set out at section A11.1(a) will be satisfied. Specifically, the pipeline system can be more efficiently and economically operated since the market can respond earlier, and therefore more smoothly where the relevant data is released earlier.

Please don't hesitate to contact me if you have any queries about this response.

Yours sincerely

Chris Wright
Contracts Manager