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Dear Julian,

RE: Draft Modification Report 0105: Commercial arrangements for combined DN Exit/entry points

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

British Gas Trading (BGT) generally welcomes moves to increase gas storage in Great Britain, recognising that this is a key mechanism for enhancing supply security, particularly at times of peak demand. This, in turn, helps to reduce price volatility, ultimately to the benefit of customers.

That said, we also seek certainty that new and innovative approaches to storage, and in this case their connection to the gas network, are fair and equitable, and do not undermine the operation of the total system, or disadvantage customers or other Users.

Having reviewed the proposals set out in modification 105, we are left with sufficient concerns about its implications that we are unable to support its implementation. These concerns are set out below.

First, whilst it is our understanding that this proposal seeks to address the immediate needs of one particular entry point – Holford – the wording of the draft legal text does not appear to us to limit the effects of this modification only to that site. Instead, the limitation applies only to existing sites which are listed in Table A2 of Schedule A to NG NTS's Transporter Licence.

Therefore, these interim arrangements would be applicable to any new DN entry point up to the extent of the time limitation – 06.00 on 1 October 2007. In addition, should these arrangements prove to be particularly beneficial, raising the spectre of discrimination, we wonder whether there is scope for existing DN connected entry points to seek a disapplication of the prevailing regime in order to migrate on to these proposed "UNC

arrangements". This creates uncertainty about the number of DN connected entry points that might fall under this regime.

In our response to the Ofgem consultation on the subject of interim and enduring DN connection arrangements, we highlighted concerns over the proposed commercial approach. These concerns include, amongst others:

- Loss of overall visibility and control of system operations;
- Scope for anti-competitive or discriminatory behaviour (e.g. where an embedded storage facility was owned by the same group of companies as the DN);
- Interaction with the new arrangements being considered for exit, in particular a GDN's need and ability to book capacity and flexibility from the National Transmission System;
- The competitive or financial advantage that might derive to a GDN from having an embedded storage facility attached in respect of use of capacity on a peak day. This point is raised by the proposer as a benefit, however we are concerned that the extent of any benefit may be limited to within that DN, at the expense of others; and
- A smearing of additional costs onto other shippers, especially those operating primarily on the NTS.

We recognise that these are complex issues, and we are uncertain about the extent to which any or all of them might apply. However, until information becomes available that provides satisfactory reassurance, these concerns will remain.

We have tried to weigh the detriment of the issues that we see, against the possible benefits of this modification. Whilst the early connection of a storage site would normally be welcomed, in our view the benefits case is weakened:

- Through this being an existing storage facility that has changed its operating arrangements;
- Through the lack of third party access to the facility; and
- By our understanding that the owner/operator of the site is also the only shipper, whose intention is to use this facility as a commercial price hedging tool.

The benefits to the overall gas community are therefore not entirely clear.

Our decision not to support this modification also rests upon the potential for an unknown number of DN entry points to adopt this methodology. A greater number would obviously have the effect of multiplying any detriment.

In not supporting this modification, we are aware that we are opposing what might be viewed as a pragmatic solution to a short term problem. However, we have sufficient doubts about this modification's implications, and the extent to which it facilitates, or indeed harms, the relevant objectives, that we believe this is the correct course of action.

We are also concerned about setting an unwelcome precedent for any enduring regime, particularly when we believe that the effects have not been exhaustively researched.

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

Yours sincerely

Chris Wright
Contracts Manager