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20 November 2006

Dear Julian

RE UNC Modification Proposal 0120 – Introduction of an SO Commodity Charge for NTS Storage Facilities

Thank you for the opportunity to comment on this Modification Proposal, which is raised in parallel with a Pricing Consultation.

The subject of commodity charges being applied to flows of gas to and from Storage facilities is not new; this was last considered in 2003 with the proposals at that time being rejected by Ofgem. In considering it now, we need to understand what, if anything, has changed. BGT having considered the available information does not support the introduction of this proposed SO Storage Commodity Charge. Our reasons are explained further below.

There are two elements to be considered:-

- i) whether an SO Commodity Charge should be applied to flows to and from Storage Facilities as if it were a normal entry and exit point, and
- ii) if so, should the charge be modified from the standard charge

An important principle is that of cost reflectivity. Whilst we recognise that the Pricing Consultation paper NTS GCM 03 identifies a number of components of the total costs associated with the SO Commodity Charge, there is little transparency to enable the reader to assess the proportions of each element and how each is incurred.

In this respect there are a number of specific queries.

The proposal is for an SO Commodity Rate of 0.0065 ppkWh on Entry and Exit flows. This represents 58% of the standard charge of 0.0112 ppkWh.

It is commonly understood that the major portion of the SO Costs, and hence the SO Commodity Charge, is related to compressor fuel. This is accounted for as NTS Shrinkage. The rationale excludes this element of shrinkage costs from those to be applied

Page 1

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to storage flows. If this is such a major portion of SO costs we are concerned that the reduction does not appear to reflect this.

With regard to Exit Capacity TO Costs, the proposal is to include this element of the SO costs as storage facilities are interruptible. We have two queries on this assertion. First the assumption that an interruptible site makes a contribution to TO costs through a commodity charge appears unjustified. The second point is that under the enduring regime for exit capacity, all exit points including storage will be firm. This would lead to double accounting.

On the matter of Revenue Adjustments we also do not understand the reference to the outcome of SO Incentive schemes. These are generally funded by the SO taking a proportion of the revenue (or charge) generated from their operation. These would not be subsidised by a general revenue collection across all users by means of the SO Commodity charge.

In considering this matter it is important to address the role of Storage in the pattern of delivery of gas to UK consumers. Storage serves to enable additional supplies to be available at peak periods, thereby assisting with system balancing and security. It is therefore relevant to judge the impact of a pricing proposal such as this upon the incentives on Users to book and use capacity and deliverability for the needs of their portfolio. It is also important to consider the influence upon potential developers of storage facilities where these proposals may impact the economics of the project.

In summary, we do not support this proposal for the application of the SO Commodity Charge upon storage flows. We believe that the thinking behind the proposed rate is not cost reflective, leading to storage users paying too much for the use they make of the NTS. This could have an impact upon security of supply in the short and longer term.

Given these reservations, if it is decided to apply an SO Commodity Charge on Storage flows, it must be reflective of the actual costs associated with the provision of the service. From the details provided in the Pricing consultation and the Modification Proposal and Report we do not believe that there is sufficient transparency to assess whether this level of charge is appropriate, and we therefore cannot support this proposal.

Please contact me if you require any further information.

Yours sincerely,

Mike Young
Commercial Manager