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Our Ref.  
Your Ref.

3 January 2007

Dear Julian,

**Re: Modification Proposals 0125: "Introduction of new balancing neutrality charge for cost of residual balancer collateral on the OCM"**

Thank you for the opportunity to comment on this Modification Proposal. British Gas Trading (BGT) offers qualified support for its implementation.

We recognise that this proposal is required as a result of changes in the regulatory framework covering activities that NG NTS undertakes on the OCM, on behalf of the community. We also recognise that National Grid NTS, in its role as residual balancer, must do whatever is reasonably necessary in order to comply with regulations and best practice regarding its financial dealings. To this extent, it would seem evident that any costs that have been efficiently and economically incurred in carrying out the residual balancer role should be passed through to the industry.

We agree with the proposer that targeting these charges at the Users who incur them will better facilitate the securing of competition between relevant shippers.

The qualification behind our support, however, stems from way in which it is proposed to pass through these charges. In particular, the principle of being unable to identify exactly where costs are being incurred, the extent of those costs, and the opaqueness that could potentially prevent User certainty that costs have been efficiently incurred.

We welcome NG NTS' preferred approach of extending its Group letter of credit arrangements to cover this particular activity, with the beneficial rates that this might bring. However, at times when all shippers/suppliers are under extreme cost pressure, for example from high wholesale prices and increasing transportation costs, the concept of paying a charge "on trust" may be very difficult for Users' to sell to their internal finance functions.

The counter to this argument, of course, is that greater transparency could Users more.

On balance our preference is for arrangements that provide the lowest cost option to the community, but would seek as much reassurance as possible that all costs incurred on behalf of the community are no more than absolutely necessary. To this end, steps by NG to demonstrate the extent of any saving from using its Group finance arrangements, for example, would be welcome.

Please contact me if you require any further information.

Yours sincerely,

Chris Wright  
Contracts Manager