



Mr J. Majdanski  
Secretary, Modification Panel  
Joint Office Ground Floor Red  
51 Homer Road  
Solihull  
West Midlands  
B91 3QJ

Centrica Energy

Millstream East  
Maidenhead Road  
Windsor  
Berkshire  
SL4 5GD

Tel. (01753) 431242  
Fax (01753) 431150

Our Ref.  
Your Ref.

28 December 2006

Dear Julian,

Re: Modification Proposals 0128 – Amendment to Entry Capacity Baselines

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

British Gas Trading are strongly opposed to the implementation of this Modification Proposal 0128.

We recognise that the Modification Proposal has been raised in order to relieve National Grid from a licence obligation which, following the agreement of the Price Control, is no longer applicable. However, we have concerns both about this method of correcting this anomaly and the material changes being effected to the baselines by this method. A further complication is the timing of this Modification Proposal. The short timescale for consultation and the response date over the holiday period is not conducive to the level of consideration that is warranted by a matter of this nature.

There have been a number of discussions on the role of the UNC and the details contained within its drafting in respect of the Transporters licence obligations. In the past it had always been postulated by the Regulator that detail of this nature must be included within the Licence and could not be amended or over-riden by subsequent provisions of the UNC. Following this assertion, we are of the view that it is not appropriate to amend UNC Drafting to correct sections of the licence which become inconsistent.

Turning to the nature of the proposed change itself, we also have grave concerns about the manner in which these baselines have been amended and agreed as well as the actual numbers themselves.

Through the Price Control discussions and debates at the Transmission Charging Methodology Forum, the industry has been taken through a process by which it is possible to arrive at baselines for Entry Capacity which are reflective of the physical capabilities of the National Transmission System. This has been done by means of comparison of three Scenarios; 1:20 Transit UK supply, supply substitution; 1:20 Global LNG supply, supply substitution and 1:20 Auctions+ supply, supply substitution. Having carried out this

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comparative analysis, figures were published and included within the Initial and Updated Proposals stages of the Transmission Price Control process. However, the figures published in the Final Proposals document show a dramatic shift from those seen in earlier papers and we are firmly of the view that these Proposed Baselines no longer reflect the physical capabilities of the system. Specifically, there are a number of Entry Points (Isle of Grain, Teesside, Barrow, Theddlethorpe, Hatfield Moor, Glenmavis and Dynevor Arms) where the baseline has been reduced significantly. Given that existing baseline capacity is related to physical assets, we do not understand how these reductions can continue to reflect physical capability. Indeed we believe that at some of these ASEPs there are physical flows in recent experience that exceed these Proposed Baselines. Similarly, there are Entry Points (Hole House, Barton Stacey, Garton and Cheshire) where the baseline has increased significantly. We are not aware of signals to invest at these Entry Points within the LTSEC process, nor of any investment being carried out to provide incremental capacity.

In particular there are several instances of the proposed baselines at some of the LNG facilities being demonstrably below that actually utilised in the last gas year, without any coherent explanation of the rationale for this. Examples are shown in the table below.

ASEP	Current Baseline (GWh/d)	Proposed Baseline April 2007 (GWh/d)	Sold Deliverability (GWh/d)	Maximum Delivery 2006 (GWh/d)
Glenmavis	99	29	101	59
Partington	215	175	220	192
Avonmouth	149	179	156	83
Dynevor Arms	50	8	49.2	32

The case at Avonmouth is counter to that at other LNG facilities as the baseline has been expanded beyond any figure that may have formed part of the original provision and again there has been no signal for incremental capacity requirement.

These figures demonstrate that the existing baseline reflects the current capability of the system in that the network would have been developed to be compatible with the maximum deliverability of these facilities. We believe that this provides conclusive support to the view that the Proposed Baselines for April 2007 underestimate the true potential of the existing network.

Furthermore, changes of this nature to the baseline figures undermine any confidence in the entry capacity auction process. Without some strong continuity of baselines between controls, Users will face high risk in signalling the need for capacity beyond the current Price Control period. In the event, as we believe is the case, that the proposed baselines do understate the system capability and the Transporter may well be rewarded by an incentive to provide any subsequent “incremental” capacity without the need for any investment.

In summary, we believe that this consultation is not an appropriate manner in which to amend Entry Baselines. The actual figures proposed have departed significantly from those expected through earlier stages in the Price Control Consultation process and, we believe, do not represent the physical capability of the system. In some cases this can be

clearly evidenced by analysis of recent flows and in other cases a “common sense” approach would indicate that the physical capability is much greater than suggested by the proposed baselines. Nor does there appear to be any clear link between these proposals and the “investment signalling” role of previous entry capacity auctions.

In our view, the baseline capacities available for entry to the national gas transmission system are far too important an issue to be determined by in an apparently arbitrary manner at short notice, without a transparent and coherent underpinning in terms of logic, network analysis and good industry process.

Please contact me if you require any further information.

Yours sincerely,

Mike Young  
Commercial Manager