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Our Ref.
Your Ref.

29 June 2007

Dear Julian,

RE: Modification Proposal 0144 / 0144AV– “Quantification of Value at Risk to determine a User’s minimum Code Credit Limit Requirement”

Thank you for the opportunity to comment on these two modification proposals. British Gas Trading (BGT) offers this single response.

BGT does not support proposal 0144, but offers qualified support for modification proposal 0144AV.

The introduction of the proposed VAR regime signals a move away from securitisation being calculated on peak invoice values, to a regime where more account is taken of average values. This will inevitably result in periods where the implications of shipper failure are significantly higher due to the lag between higher transportation charges, and the placing by Users of the additional required security.

To this end, we believe that the additional security required by 0144AV, resulting from the 20 day calculation as opposed to the 15 day calculation, will offer greater protection to the shipping community from bad debt in the event of a shipper failure.

We also note that the proposers both believe that additional costs will be incurred in implementing and operating this new regime, although we are not aware of any figures in respect of this point. Careful consideration will need to be given to this point when assessing the merits of these proposals.

We believe that the primary aim of this proposal is to seek to reduce barriers to market entry through reducing the costs of credit cover. We agree that where this is achieved, competition between relevant shippers could be expected to be better facilitated, albeit at the cost of increased exposure to the shipping community of smeared charges in the event

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of a shipper failure, and increased implementation/operating costs. Our support is qualified on this basis.

Should you have any queries with regard to this response please do not hesitate to contact me.

Yours sincerely,

Chris Wright
Commercial Manager