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Dear Julian,

Re Urgent Modification Proposals

0150 and 0150A Transitional Arrangements for Entry Capacity Transfers to Sold Out ASEPs
0151 and 0151A Transfer of Sold Capacity between ASEPs

Thank you for the opportunity to comment on the above Modification Proposals.

You will be aware that we have been active in the recent development arrangements to transfer Entry Capacity to ASEPs which are oversubscribed within the existing processes but fall short of meeting the test to demonstrate the requirement for investment. In our view it is essential to explore methods to maximise the capability of existing assets. This exercise has resulted in the raising of this suite of proposals in an attempt to put some process in place prior to the winter of 2007/08.

Before commenting on the Modification Proposals themselves it is also necessary to note the context within which these proposals have been raised.

Firstly, the setting of the Baseline Capacity levels. The Transmission Price Control Review has now fixed baselines for 2007 – 2012 at a level which many industry parties believe is well below actual system capability. There follows the need to ensure that such capacity as is available is utilised to maximum benefit of all players and ultimately to the benefit of consumers. In this respect we are entirely supportive of mechanisms that enable the capacity to be re-located between ASEPs to meet the requirements of Users. However, this must be underpinned by an unambiguous and transparent process where all players are able to properly assess the benefits and risks associated with the process itself and the consequential implications.

The second point is to comment on the timing of this process. The proposals, which affect transfer or trade of both sold and unsold capacity, would take effect following Long Term (LTSEC) and Medium Term (AMSEC) processes. The latter of which has just completed today. In these processes, Users will have taken a position of holding Entry Capacity at a range of ASEPs to meet their forecast needs at the time of bidding. It has to be assumed that this would not have included

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any provision for trades or transfers in the Long-Term process and at best has left Users second-guessing the outcome of these Modifications in the Medium-Term process.

Turning to the Modification Proposals themselves. As stated above, we are supportive of means to ensure that system capability is used to best effect and to the requirements of Users. The re-location of Unsold capacity to an ASEP where demand cannot be satisfied by Baseline quantities is an obvious benefit and is a positive move toward realising maximum capability. By definition unsold infers unwanted at a donor ASEP and this process could be obscured by Users acquiring “unwanted” capacity at a potential donor ASEP with view to trade to another . Underlying such a process must be clarity and transparency of factors such as the exchange rate in order that Users have some degree of certainty of the product being acquired.

However, we have concerns over the introduction of a facility for trades of sold capacity, given that Users will have formulated their existing holding of capacity without knowledge of this facility. We do not believe that the trades of sold capacity should precede transfers of unsold capacity.

There are other factors within the proposals which have some merit, for example zonal based capacity allocation, but we believe these are insufficiently developed to warrant our unqualified support at this time. We believe that there is also scope for a more frequent process than annually; indeed this appears to be a clear aspiration of the regulator from their letter rejecting Modification Proposal 0138 which still needs to be addressed.

We are also of the view that the timing and interaction of these processes needs careful consideration. Primary sale of capacity is now reasonably well understood through the experience of the industry but the overlay of transfers and trades will change the manner in which capacity is acquired. If transfers and trades are simply based upon existing holdings this will undermine the value of the product acquired. If trades precede transfers again it will change the value of the product. If trades are facilitated only after transfers are satisfied the outcome will be different again.

In summary, we believe that there are a number of key requirements of such processes that are not wholly achieved by any combination of these Modification Proposals. Therefore we can offer only qualified support of Modification Proposal 0150 and cannot support any of the other proposals in their current form.

Please contact me if you require any further information.

Yours sincerely,

Mike Young

Business Development Manager, Gas Transportation