

25th May 2007

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Dear Julian,

RE: Urgent Modification Proposal 0151 and Alternate 0151A – “Transfer of Sold Capacity between ASEPs”

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

Centrica Storage Ltd (CSL) does not support the implementation of National Grid (NG) NTS' Modification Proposal 0151.

CSL does support the implementation of EON's alternate Modification Proposal 0151A.

General Overview

We understand that as part of the Final Proposals for the Transmission Price Control Review (TPCR), which NG NTS has now accepted in principle, Ofgem proposed that an obligation is placed on NG NTS to facilitate the trade of sold capacity between ASEPs and that the allowed cost of capital was set commensurate with this obligation being implemented. We also understand that NG NTS requested a one year derogation from this obligation which was rejected by Ofgem on the grounds that capacity trades form an integral part of the overall package that NG NTS accepted and which we believe is being adequately remunerated for. Given this potential incentive on NG NTS to delay successful implementation of this obligation and the sterilisation of capacity that would result, CSL continues to be actively involved with the design and implementation of a regime which will facilitate the trade of sold NTS entry capacity for both this forthcoming winter and for the enduring regime. Our overarching conclusion arising from this involvement is that the implementation of the Mod 151A would result in a significantly more workable process which would lead to better facilitate the relevant objectives of economic and efficient operation of the NTS and the efficient discharge of the licensee's obligations.

Zonal Based Entry Capacity Allocation

We believe that the main advantage EON's Mod has over NG NTS' Mod is that, through the introduction of a zonal based entry capacity allocation, it better facilitates the relevant objectives, is more simple and straightforward and affords significantly more flexibility and certainty to Users.

The adoption of a zonal based entry capacity allocation was first proposed by NG NTS in 1999 Mod 127 (TED and THREAD) which considered combining ASEPs within entry zones for auction purposes and more recently in its Mod proposal 116 Entry Capacity Transfers in the constrained period. The relevant sections included the following and we believe are still relevant for Mod 151A:

*“The AMTSEC auction will allow users to bid at sold out ASEPs for any unsold capacity at ASEPs within the same NTS Entry Transfer zone at a **1:1 exchange rate**, subject to local maxima that will be determined in advance of the auction and which will limit the increase in buy back risk.”*

“in respect of paragraph A11.1(a), the Proposal would enable National Grid NTS to more efficiently manage the release of entry capacity during the constrained period and would avoid circumstances where entry capacity was unsold in a NTS Entry Transfer zone where another ASEP had demand for capacity in excess of its baseline. This would optimize the use of capacity within the NTS Entry Transfer zone.”

“in respect of paragraph A11.1 (d) (i) the Proposal would enable the promotion of effective competition between Shippers by maximizing the level of capacity available within a NTS Entry Transfer zone where a level of demand that exceeds the baseline at an ASEP may otherwise remain unsatisfied.”

Relevant Objectives

We consider that Modification Proposal 0151A better facilitates the relevant objectives than Mod 0151 and outline our reasons for this below.

1. The introduction of the 1:1 transfer rates for trades within an Entry Zone will significantly reduce the likelihood of delays in the process and reduces the need for NG NTS to perform costly and time-consuming rate calculations thus better facilitating the relevant objectives under Standard Special Condition A11 paragraph 1(a), the efficient and economic operation of the NTS pipeline system. In addition, the simplicity and transparency associated with fixed 1:1 exchange rates can also be considered to better facilitate the relevant objectives under Standard Special Condition A11 paragraph 1(a)(i); the securing of effective competition between relevant shippers.
2. The introduction of zones will increase the potential for shippers to compete for entry capacity across input points enabling more efficient delivery of lowest cost gas supplies and better discovery of entry capacity prices and therefore can also be considered to better facilitate the relevant objectives under Standard Special Condition A11 paragraph 1(a)(i); the securing of effective competition between relevant shippers.
3. The current licence wording includes “Prior to any mechanism for the release of capacity the licensee shall use all reasonable endeavours to meet any requests from a shipper for a transfer rate or rates calculated in accordance with the methodology prepared pursuant to

paragraph [[8 © of this condition]]. The adoption of Entry Zones with 1:1 exchange rates satisfies this obligation.

4. Time-bound proposals - Ofgem's rejection of EON's Mod 138 "Transitional arrangements for entry capacity transfers to sold out ASEPs" stated that the relative objectives would not seem to be met by introducing a restricted set of trading in a once a year window. NG NTS' proposals would only apply Oct 07 – March 08 (inclusive).

5. Mod 0151 makes use of the proposed transfer rate methodology which is currently under consultation. The methodology only provides for efficient transfer of capacity which has gas flow potential at the donor ASEP. This results in the stranding of gas at the donor ASEP and inefficient exchanges rates to the recipient ASEP. The result is an inefficient distribution of entry capacity leading to unnecessary limitations on gas deliveries and reduced overall baseline risk. Mod 0151A allows this methodology to be ignored for the majority of transfers and will result in more efficient use of used capacity.

6. Mod 0151 and the exchange rate methodology states that it seeks to maintain NG NTS' (and users) entry capacity buy back cost risk. The methodology requires that all unused capacity be neutralised before any transfer of required capacity can happen resulting in exchange rates which will not represent the physical characteristics of the network. Whilst buy back risk is a potential major cost to specific players in the industry (the overall industry remains neutral) we believe that its threat has gained undue influence within the UNC governance in recent years. The current price control proposals will effectively neutralise any buy back exposure to NG NTS but also reduce the incentive to maximise available entry capacity. Introduction of Mod 0151A has the potential to increase buy back risk at specific entry points, but only to the levels which previously existed. It will ensure NG NTS remains incentivised to provide all the capacity physically available.

We suggest that revision of the buy back mechanism could neutralise any risk and that maintaining NG NTS' exposure will incentivise it to consider addressing the problems of the mechanism rather than allowing it to continue to be used to impede development of the UNC.

7. EON's Mod 151A provides for more frequent transfers of sold capacity than that contained with NG NTS proposals thereby better facilitating the relevant objectives under Standard Special Condition A11 paragraph 1(c), the efficient discharge of the licensee's obligations under this licence and 1(f) the promotion of efficiency in the implementation and administration of the network code.

8. EON's Mod 151A better facilitates the relevant objectives under Standard Special Condition A11 paragraph 1(e), the securing of the domestic customer supply security standards as its implementation will result in more capacity being traded primarily due to the adoption of a fixed 1:1 intra zone exchange rate and the efficiencies that result. As a consequence, users will have greater opportunity to secure additional capacity therefore allowing gas flows onto the system that may otherwise be prevented and may avoid the potential sterilisation of entry capacity and hence costs being inefficiently incurred.

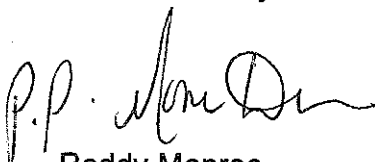
9. We believe that EON's Mod 0151A better reflects Ofgem's risk-reward proposals for NG as outlined in Ofgem's final TPCR proposals. As a result, Mod 0150A better facilitates the relevant objectives under Standard Special Condition A11 paragraph 1(c), the efficient discharge of the licensee's obligations under this licence.

10. Finally, we believe that EON's Mod underpins and reinforces the user commitment model by allowing sold capacity to be transferred first. This is logical and efficient as in a constraint situation the nearest delivery points will sell out first and this is where capacity should be transferred from first rather than remote locations where little transfer capability exists.

In conclusion CSL believes that the implementation of EON's Modification Proposal 0151A better facilitates the achievement of the relevant objectives. NG NTS' Proposal 0151 when considered with the exchange rate methodology could result in further stranding of capacity and undue restrictions on UK gas delivery.

If you have any questions or queries regarding this response, please do not hesitate to contact me.

Yours sincerely

A handwritten signature in black ink, appearing to read 'P.P. Monroe', written over a horizontal line.

Roddy Monroe
Regulation Manager