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Our Ref.
Your Ref.

20 July 2007

Dear Julian,

RE: Modification Proposal 0156 and 0156A: "Transfer and Trading of capacity between ASEPs"

Thank you for the opportunity to comment on this proposal.

British Gas Trading (BGT) is in support of both proposals, and considers that they both better facilitate the relevant objective of better facilitating economic and efficient operation of a pipeline system. Of the two, BGT believes that 0156A puts forward a better solution, and therefore we express a preference for that proposal.

BGT has worked closely with numerous other stakeholders across the industry in order to develop proposals that achieve an acceptable balance between: fulfilling NGT's licence conditions; implementing a solution that has the potential to deliver real benefits to constrained entry points; and equally importantly, does so without also introducing the unacceptable levels of uncertainty and other pitfalls that were evident in a number of previous proposal on this subject.

That said, we do not believe that either of the current proposals are optimal as long term solutions to the problem of how to move short term capacity between Users and between entry points, with both proposals containing compromises. We also recognise however, the extreme time constraints that now face the industry, and the potential complexities involved with a process that might produce a more optimal outcome.

In this respect, we believe that both 0156 and 0156A represent pragmatic solutions under difficult circumstances. Equally, we are pleased that both are recognised as being temporary, and we would be keen that work should commence on an enduring solution as soon as possible, albeit with scope to learn from any temporary regime.

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BGT believes that the significant focus for this process will be upon the Easington Zone, given the current constraints in that part of the network. Given the unprecedented spread of prices seen during the 2007 AMSEC auctions for Easington capacity, we believe that a single auction round is likely to result in a less efficient outcome than the multiple round process proposed by 0156A. We therefore suggest that on this basis, 0156A facilitates the relevant objective of an efficient and economic pipeline system to a greater extent than 0156.

There is no doubt that significant work, by many players and over a period of many months, has gone into understanding and refining the scope of capacity transfers to the point where only now are there two proposals that we believe could be implemented. Even then, these two proposals only represent a temporary solution, with wide acceptance that these are not suitable as longer term solutions, which will require significant additional work.

BGT believes that it would be wrong at this stage to push ahead with any permanent “substitution” methodology. Instead, we believe that permanent substitution of capacity can only be implemented against a background of an acceptable and widely understood enduring solution to short term capacity movements. We would therefore strongly encourage Ofgem to delay progress on permanent capacity substitution at least for development in parallel with the enduring short term regime, and preferably until that enduring short term regime is bedded in across the industry.

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

Yours sincerely,

Chris Wright
Commercial Manager