



Mr J. Majdanski
Secretary, Modification Panel
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Email: enquiries@gasgovernance.com

Dear Julian,

20th July 2007,

RE: Urgent Modification Proposal 0156 and Alternate 0156A – “Transfer and Trading of Capacity between ASEPs”

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

Centrica Storage Ltd (CSL) does support the implementation of National Grid (NG) NTS' Modification Proposal 0156.

CSL does support the implementation of E.ON's alternate Modification Proposal 0156A.

Of the two, CSL prefers the implementation of E.ON's alternate.

With regard to CSL's views on the trades and transfers process and how its implementation has developed we offer the following general comments.

The Final Proposals for the Transmission Price Control Review (TPCR) proposed that an obligation be placed on NG NTS to facilitate the temporary trade of sold and transfer of unsold capacity between ASEPs. CSL has fully supported the introduction of such an obligation and with it the benefits to the economic and efficient operation of the NTS through the short term optimisation of existing entry capacity.

However, CSL is very disappointed with the length of time it has taken to reach this position which is in part due to the lack of appropriate ownership required to ensure that these new obligations are in place for this forthcoming winter. Whilst we appear to be nearing a solution for this winter, this is only the start of the process and we believe that there is still much work needed to develop a robust enduring solution. As the enduring regime should be in place as soon as possible, and in any case, before the 2008 AMSEC (April / May) we urge NG NTS not to lose focus. Of immediate concern is the confusion around the likelihood of increased buy back risk and TFA curtailment of terminal flows. CSL



does not believe that these concerns are well founded and have asked that NG NTS publish information demonstrating where there has been buy-back of capacity in 1 Oct - 1 April period since 2002 and the number of times the buy-back has not worked (e.g. no bids or insufficient bids) which has led to NG NTS having to issue TFAs to reduce gas flows. We again urge NG NTS to publish this information as soon as possible.

Finally, we see the introduction of trades and transfers as being part of a package of reforms to the entry regime which includes reform of the interruptible regime and improvements in the transparency arrangements for market participants. We would not want NG NTS to lose focus on these related, and very necessary, reforms.

With regard to the NTS mod and the E.ON alternate, which we believe both offer a sensible balance between pragmatism and the long term optimal solution, we offer the following comments.

We believe that the main advantage EON's alternate has over NG NTS' Mod is that, through the introduction of a two round two allocation auction, albeit for only for the months of November through to March, this will provide a greater degree of price visibility to market participants and hence lead to a more economic and efficient outcome when compared to a one round on allocation auction proposed by NG NTS.

Apart from differences in the auction arrangements, the two proposals are very similar and we therefore outline the reasons we consider that both Modification Proposal 0156 and alternate 156A better facilitate the relevant objectives below.

1. The introduction of 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 zone based capacity transfer 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. Both proposals 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.

5. On the assumption that both proposals are underpinned by a ‘fit for purpose’ methodology statement that reflects Ofgem’s view of the appropriate balance of risk-reward for NGG NTS as outlined in the final TPCR proposals, both proposals will better facilitate the relevant objectives under Standard Special Condition A11 paragraph 1(c), the efficient discharge of the licensee's obligations under this licence.

In conclusion CSL believes that whilst the implementation of either NG NTS or E.ON’s proposal will better facilitate the achievement of the relevant objectives, the pricing exposure resulting from the E.ON proposal we believe will lead to improvements in economic and efficient operation of the market. Failure to implement either 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

Roddy Monroe
Regulation Manager
Centrica Storage Ltd