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Our Ref.  
Your Ref.

10 September 2007

Dear Julian,

RE: Modification Proposal 0164: "Bi-directional Connection Point Overrun Charge Calculation"

Thank you for the opportunity to comment on this proposal, of which BGT is supportive.

A key principle established within the GB gas regime is that of correct cost allocation. Ofgem has reinforced this on a number of occasions, not least by establishing a set of relevant objectives that take account of this principle, but also by implementing a number of UNC modification proposals that seek to more accurately apportion costs on those who incur them.

Proposal 0164 addresses a potential deficiency in the fair allocation of costs, by outlining how, at bi-directional sites, Users can face capacity overrun charges even though they may not have overflowed their capacity holding. This occurs due to contractual, rather than physical, gas flows being used in the calculation. Further, 0164 also suggests how overrun charges can be incurred even though no physical flow of gas actually occurs at the bi-directional point. We agree that in today's market environment this concept seems inherently wrong, even if it originated out of necessity at the outset of gas market competition.

It therefore stands to reason that there would be an increase in charges for the generality of Users. Notwithstanding this point, we still consider this to be an unnecessary cross subsidy, and one that should be corrected.

In correcting this cross subsidy, we believe that the relevant objective of facilitating competition between relevant shippers will be furthered.

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

Yours sincerely,

Chris Wright  
Commercial Manager