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Dear Julian,

17<sup>th</sup> August 2007,

**RE: Modification Proposal 0169 and Alternate 0169A "Transfer and Trading of Capacity between ASEPs"**

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

Centrica Storage Ltd (CSL) supports the implementation of Modification Proposal 0169.

Centrica Storage Ltd (CSL) does not support the implementation of Modification Proposal 0169A.

With regard to Modification Proposal 0169 we understand that this is essentially the same proposal as Modification Proposal 156A albeit with revisions to accommodate delays in implementing the Licence obligations and the requirement for consulting on the supporting Methodology Statement. We therefore refer you to our comments contained in our previous response to Modification Proposal 156 and 156A. In summary we considered that whilst both the implementation of Modification Proposal 0156 and alternate 156A would better facilitate the relevant objectives, we believe that the introduction of a two round two allocation auction 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.

The alternate Modification Proposal 169A, which we understand through discussions at Transmission Workstream, has been raised by Scottish Power to remedy a specific issue at its Hatfield Moor storage facility, proposes similar arrangements to the original except for allowing Shippers a second opportunity to secure both unsold and surrendered entry capacity at donor ASEPs prior to it being made available to the market through the AMTSEC process. This will prevent entry capacity being traded or transferred away if incumbent shippers now require it at the ASEP at which it was originally made available. CSL does not support the implementation of this alternate for the following reasons:

We believe that the issue this alternate is attempting to resolve can be better achieved through bi-lateral trading currently permitted under existing arrangements.

We believe that there was credible expectation provided by Ofgem prior to the May AMSEC auctions that Trade and Transfers would be in place for this winter and that AMSEC would be the last opportunity to secure firm long-term capacity for a specific ASEP. The proposed modification introduces the opportunity for ex-post distortions to the allocation of capacity to locations where users value that capacity most.

We believe that the proposal allows certain Shippers to obtain capacity at prices no longer related to the current market price and may therefore be discriminatory and uneconomic. The original Modification Proposal allows for Shippers at donor ASEPs to compete for capacity, on a level playing field, with Shippers who want capacity transferred to recipient ASEPs.

The proposed trades and transfer modifications introduce mechanisms to enable capacity to be moved to locations where it is valued most and can be most efficiently utilised. Modification Proposal 169A would distort the efficiency of this mechanism by allowing the incumbent User of an ASEP to block a transfer without competing.

We are concerned that this proposal would unfairly reward an incumbent User who has chosen to withhold bids in the AMSEC auctions, allowing a low clearing price, to then secure capacity at the average auction price. This will be a particular issue where a low number of users participate at an ASEP.

We believe that modification proposal 0169A would unduly restrict the movement of capacity across the network through introducing priority calls on capacity.

Finally, we believe that this proposal will lead to economic loss for surrendering participants who paid above the weighted average of the May AMSEC who may have legitimately entered into the auctions with a view to trade the capacity.

To conclude, CSL views on the various trades and transfers proposals are as follows:

- 1. Modification Proposal 156A: Support**
- 2. Modification Proposal 169: Support**
- 3. Modification Proposal 156: Qualified Support**
- 4. Modification Proposal 169A: Do Not Support**



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

Yours sincerely

Roddy Monroe

Regulation Manager