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Our Ref.
Your Ref.

8 February 2008

Dear Julian,

RE: Modification Proposal 0187/0187A – NTS Entry Capacity Transfer and Trade

Thank you for the opportunity to comment on this proposal and its alternate.

British Gas Trading (BGT) believes that while Modification Proposal 0187 has some merit it has two major deficiencies, therefore we do not support implementation of Modification Proposal 0187. As the proposer of Modification Proposal 0187A we strongly support the implementation of 0187A and believe that it represents a significant improvement over 0187. We believe that 0187A better meets the overall objective of optimising the use which is made of spare capacity in terms of making this available to Shippers at other entry points where it is valued the most.

We consider that Modification 0187, by taking the highest surrender price first, will firstly encourage Shippers who hold spare capacity which is of no value to them to price it at the prevailing reserve price rather than at a very low price which reflects its true value, hence Modification Proposal 0187A will better facilitate the relevant objectives, in particular, securing an economic price for surrendered capacity. Also use of a highest surrender price first method (in 0187) will maximise the destruction of capacity at surrendering entry points and by definition some of this will be inefficient. This will happen because the highest priced surrendered capacity will be valued against higher priced rolling capacity bids than would be the case if offers were taken from the lowest surrender price first.

We also consider that setting a maximum surrender price equal to the prevailing reserve price will limit the amount of capacity offered for surrender in certain cases. We recognise that for this to happen two conditions would normally need to apply, firstly users have acquired the capacity at a price which is higher than the prevailing reserve price (this could have happened, for example, at a QSEC auction a number of years previously when the reserve price was higher) and secondly there would need to be a realistic prospect of

Page 1

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alternative use of the capacity, either selling the capacity to another user at the current entry point or buying gas, e.g. for import, even though this may only be available at a high price.

We understand the concerns of some Shippers in respect of potential abuse of the ability to set surrender prices above the prevailing reserve price but believe that these concerns are adequately addressed by the limitations which are contained in Modification Proposal 0187A. Firstly the holder of capacity does not know in advance any of the exchange rates which will be applied to that entry point and there is no guarantee that any of these will be below 10:1. Secondly the exchange rate and unit price ensure that inefficient transfer does not take place. Above all the market mechanism of 0187A means that users who wish to ensure that the capacity they offer for surrender is used will have to surrender it at a low price. We therefore consider the concerns to be unfounded.

BGT does not support implementation of Modification Proposal 0187. Whilst the differences between the two modifications appear minor, in our view they are significant.

We believe that the intention behind Modification Proposal 0187A is to ensure that NTS Entry capacity transfers and trades take place as economically and efficiently as possible and to allow shippers to take their own view as to the price at which to offer capacity in the surrender processes.

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

Yours sincerely,

Clive Woodland
Planning and Analysis Manager