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Our Ref.  
Your Ref.

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Dear Julian,

RE: Modification Proposals 0216: "Introduction of an Additional Discretionary Release Mechanism for NTS Entry Capacity"

and

216A: "Introduction of Additional Pay-as-Bid Auctions for NTS Entry Capacity"

Thank you for the opportunity to comment on these proposals. British Gas supports the implementation of proposal 0216A but does not support proposal 0216.

British Gas fully supports the principle that National Grid NTS should have the ability under the UNC to release non-obligated firm capacity to the market, and both proposals seek to achieve this.

We do have a number of concerns over the rather general nature of the original proposal, 0216. Whilst we agree that the proposal is fully developed, it would seem to provide National Grid with extensive latitude in respect of the nature of the release mechanism. Aspects of 0216 such as this will undoubtedly add to the uncertainty that shippers may already feel about the impacts of an additional capacity release mechanism on both buyer (and seller, in the case of the secondary market) behaviour, the capacity available through established short term capacity release cycles, and the impacts upon SO revenues.

We are also concerned that overuse or over-reliance on any such discretionary product could lead to a reduction in the booking of obligated capacity with consequential impact on the recovery of TO revenue. There is also potential for this product to undermine the requirement for and value of Trades & Transfers.

By contrast, 0216A seeks to restrict to an extent the sole discretion available to National Grid under proposal 0216. In our view, the key features of 0216A are a minimum of one month's duration for capacity release and its time limited nature, with the proposal ceasing to have effect after Gas Year 2008/09. Whilst we would sincerely hope that the industry could work towards an enduring solution to take effect at that date, we believe it would be extremely valuable to test the actual impacts of non-obligated release over an extended period.

Further key differences between the two proposals are:

- the notice period (7 days in the case of the original, vs 28 days in the alternative); and
- the specifying of a two-round pay-as-bid auction as the release mechanism in the alternative.

We have mixed views on the first point. At this stage, for releases of greater than one month's duration, we would err towards an extended notice period in order to permit greater bid planning by shippers. However, we believe that there is a valid argument for both shorter (than 1 month) duration capacity releases and shorter notice periods, and possibly even less than the 7 days referred to in NG's licence, in order to facilitate LNG cargoes, for example. We are considering whether to raise a modification proposal to address this.

To an extent, this view also impacts our thinking on the second point. Whilst we believe that a two round auction is preferable where possible, it could be the case that for within month, or even within week, capacity releases, two auction rounds is simply not practicable. This would be a further aspect for development in a future modification proposal.

As a final thought, we would not wish this ability to release non-obligated capacity to supersede or foreclose the procurement of entry capacity via established or more transparent mechanisms, and would note that extensive use of this discretionary facility could indicate inadequacies in such mechanisms or that the balance of risk and reward faced by National Grid is in need of review.

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

Yours sincerely,

Chris Wright  
Commercial Manager