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Mr. John Bradley
UNC Panel Secretary
Joint Office of Gas Transporters
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13 February 2009

Dear John,

RE: Modification Proposal 0230/230AV "Amendment to the QSEC and AMSEC Auction Timetables"

Thank you for the opportunity to comment on this proposal. British Gas does not support the implementation of either proposal.

Modification Proposal 0230

Our response to the original consultation process on Modification Proposals 0230 and 0230A set out a number of significant concerns about the intention of those proposals to amend the timing of the AMSEC and, to a lesser extent, the QSEC, auctions.

Following further industry discussions about these Proposals, the proposer of 0230 has chosen not to vary its original Proposal. Therefore, the full extent of our concerns in respect of that proposal still apply, and we would direct interested parties towards our original response and associated pricing timeline dated 10 December 2008, which can be found on the Joint Office of Gas Transporters' web site. For the avoidance of doubt, we strongly oppose the implementation of 0230.

Modification Proposal 0230AV

Further to the industry discussions referred to above, the proposer of 0230A has chosen to vary that Proposal (now 0230AV), to take account of a number of concerns voiced about the original 0230A. The key features of 0230AV are to move the QSEC process from September to March from 2010, restrict the AMSEC release period from 2 years to 18 months, also from 2010, and amend the definition of "Capacity Year".

We acknowledge that the changes to this Proposal, compared to 0230A, do go a significant way towards overcoming the concerns we had raised with 0230A. The variation does, however, introduce a new and in our view unwelcome compromise, this being the reduction in AMSEC release period from 2 years to 18 months. We do not support this aspect of this proposal.

We, and we understand other industry players, value the two year release period offered under the current regime. This is the first opportunity in the capacity lifecycle for Users to acquire primary capacity in monthly blocks. We do not believe that reducing this release period by 6 months is in any respect an enhancement over the current UNC practice.

We note the proposer's assertion that this reduction in release period removes the 12 month capacity overlap that is created by Proposal 0230 and would have been created by 0230A.

Whilst we agree that this proposal does not give rise to the issue of the 12 month overlap, and indeed solves the issue of a 6 month overlap, it does so by restricting the AMSEC release period. This would, then, appear to be a subjective decision about whether the benefits of removing the overlap period outweigh the detriment of losing 6 months of AMSEC release period. Our view is that the two year AMSEC release period should remain, and alternative approaches to removing the 6 month overlap should be found, if this is felt to be desirable.

Tackling the existing 6 month overlap period was never part of the original intentions of either of these two Proposals, and we would prefer to have a dedicated discussion on this point, which will need to encompass charging principles including the timing of release of price information by National Grid.

We have also carefully considered the benefits of moving the QSEC auction from September to March. Much has been written about the potential for greater certainty around the delivery of incremental capacity as a result of providing National Grid with summer months as the final construction period, however we remain unconvinced for a number of reasons.

Firstly, as set out in our original response, National Grid is already incentivised to deliver incremental capacity on time. These are embedded, for example, in the gas transporter licence, and are set against the backdrop of the TPCR settlement. This takes into account the extent of the total risk faced by National Grid, and the financial compensation it receives in the light of these risk levels.

Whilst we note that neither proposal claims to alter the level of contractual risk faced by each transporter, we are firmly of the opinion that moving the QSEC timetable as proposed by both 0230 and 0230AV will give rise to significantly lower levels of contractual risk for National Grid NTS. This risk reduction will not be reflected in reduced Shipper contributions without a price control re-opener. There is no indication at this stage that that is likely to happen.

Secondly, we have considered bidding behaviour, and how this triggers incremental capacity. The timescale is for a capacity bid placed in year y to release baseline capacity in year y+2. Incremental capacity can also be triggered, and this will be for delivery in the April which falls 42 months after the QSEC process. This is what gives rise to the issue of the final 6 months of build period being winter months. In reality, however, our understanding is that Users will want capacity rights to commence at the start of the Winter period i.e. October, and therefore structure their bids accordingly. In these cases, therefore, under the current regime National Grid will receive a 48 month lead time with the final months being summer months.

The third point, again repeated from our original response, is that 0230AV seeks to compress the auction timetable. The current auction timetable of February (AMSEC), July (Exit) and September (QSEC), spaces three processes over a 7 month period with a probable two month gap between the two closest processes. The revised timetable of February (AMSEC), March (QSEC), and July (proposed Exit) squeezes these three processes into a probable 5 months. We do not believe this to be an improvement over the current practice.

Summary

We see little wrong with the current timetable of UNC capacity auctions. This is evidenced by the absence of any attempt to change it in recent years. Indeed, the current attempts at change appear to have their roots in changes made to National Grid's licence – specifically the adjustment to incremental capacity delivery lead times - during the last TPCR process.

Given the non-variance of 0230 in the light of concerns raised, our views on proposal 0230 are unchanged; we remain strongly opposed.

0230AV has been varied to take account of a number of the problems highlighted with the original 0230A, and we believe the current proposal is a significant improvement over the original alternate proposal. The question remains, however, whether 0230AV is an improvement over the current UNC baseline process. In taking into account the benefits and detriments to relevant objectives brought about by the package of changes proposed by 0230AV, it is our view that it does not any improvement over the current UNC process and therefore does not better facilitate the relevant objectives as asserted.

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

Yours sincerely,

Chris Wright
Commercial Manager