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Our Ref.
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Mr John Bradley
Joint Office of Gas Transporters
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Dear John

Re: Modification Proposals 0244, 0244A and 0244B

For clarity, British Gas has submitted a consolidated response to proposals 0244, 0244A or 0244B. In summary, we do not support any of these modification proposals, and have set out our reasoning below.

1. Unfair targeting of costs. Each of these proposals will have a detrimental effect on the accurate targeting of costs, because the reduction in charges at one Exit point would need to be balanced with increases in charges more generally, so that the Transporters can recover their allowed revenue. This would mean that other users and sectors will have to pay more so that others could pay less. In particular, we would be very concerned if these proposals led to an increase in capacity charges to the domestic sector.

2. Reduced predictability of costs. These proposals will result in short term under recoveries as charges are reduced for some sites followed by over recoveries for the network owners to recover their allowed revenues. Costs will therefore be more volatile and less predictable.

3. Contrary to principles of charging methodologies. These proposals are counter to the rationale for the introduction of the revised capacity and commodity split (DNPC03). The move to an increased proportion of revenue recovered from capacity charges brought with it the issues highlighted in modification proposals 244, 244A and 244B. It was however decided that the certainty provided by increased recovery of charges through capacity was more desirable than the previously higher reliance on commodity driven recoveries. It is worthy of note that these proposals are targeted at large organisations who, overall, are in favour of capacity and commodity split.

4. Costs outweigh benefits. This change is likely to result in significant implementation costs but will not result in an overall reduction in the other costs, e.g. Transportation, faced by the industry.

5. Potential for abuse. There is potential, particularly with proposal 244, for Shippers to abuse these arrangements so that their costs are artificially reduced at the expense of the rest of the Shipper community. It is our view that whilst the alternate proposals, especially 244A, provide some comfort, there is still inadequate assurance and insufficient transparency to mitigate the risks involved.

Furthermore, we do not believe that either proposal better facilitates the relevant objectives. Specifically:

Standard Special Condition A11.1 (c): so far as is consistent with subparagraphs (a) and (b), the efficient discharge of the licensee's obligations *under this licence*

We do not believe that any of the proposals further this relevant objective. Allowing Shippers to vary capacity bookings within year will make it more difficult for Transporters to target costs. This will result in under and over recoveries of revenue that in turn manifest as volatility in charging; creating uncertainty, risk and cost for Shippers.

Standard Special Condition A11.1 (d): so far as is consistent with subparagraphs (a) to (c) the securing of effective competition: (i) between relevant shippers;(ii) between relevant suppliers; and/or (iii)between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers;

The effect of each of these proposals is to transfer costs for capacity booked by certain Exit points and certain shippers to the broader Shipper community. This therefore will result in less accurate targeting of costs, effectively providing a cross subsidy between Shippers.

If you have any questions regarding this response, please do not hesitate to telephone me on (07789) 570501.

Yours sincerely

David Watson
Regulatory Manager, British Gas