

Mr. John Bradley
UNC Panel Secretary
Joint Office of Gas Transporters
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West Midlands
B91 3LT

6 November 2009

Dear John,

RE: Modification proposal 0263: Enabling the Assignment of a Partial Quantity of Registered NTS Exit (Flat) Capacity

Thank you for the opportunity to respond to this consultation. As proposer of this modification, British Gas Trading fully supports its implementation.

This proposal seeks to enhance the efficiency of the exit capacity regime by allowing amounts of capacity which are less than a User's full holding, to be passed to another User. This enables Users to "fine tune" their capacity holdings with the system operator and other Users, in contrast to the current assignment provision which caters only for "all or nothing". In doing so, this would ensure that the original capacity holder only pays for the capacity that they need, whilst also having the considerable benefit of avoiding National Grid receiving misleading signals for duplicate capacity in the short term as required by the prospective acquiring shipper, which could result in inefficient investment. These principles apply equally to all capacity products.

This proposal has been discussed at three transmission workstreams, and a draft was shared with National Grid Gas (NGG) as far back as the beginning of July, in order to seek their initial views prior to formal publication of this proposal. Whilst we believe that the proposal has benefited from the development process, its fundamental objectives including its approach to funding arrangements have remained unaltered.

We consider that such a development period provided adequate scope for any party to consider their requirements for an Alternative proposal to be developed in parallel with 0263. Indeed, a draft Alternative proposal could have been raised at any time and brought to a Transmission workstream for development alongside 0263. It is therefore extremely disappointing that after having detailed knowledge of the intention of this proposal for more than 4 months, a brand new proposal is being contemplated which seeks to achieve much the same as 0263 albeit with different funding arrangements.

We believe it would be even more disappointing if Ofgem delayed a decision on 0263 whilst any new proposal progresses through the development and governance process. We believe that the question of funding can be addressed through consideration of Mod 263 and the representations made via the current consultation process and we are aware that Ofgem was appraised of views on this several months ago. With this in mind we consider that it would be an example of good process if Ofgem were not to delay its decision based on recent submissions at the November Transmission Workstream.

In respect of funding, we welcome Ofgem's initial view provided within the September Transmission workstream that proposal 0263 should not fall within the User Pays regime. This accords with our belief that funding for changes to the NTS Exit regime are to be funded from the proceeds of DN sales by NGG. We would assert that this functionality should have been available as an integral component of the capacity allocation process. It is our view that, for NTS direct connects, shared supply points, CSEPs, interconnectors and storage points the new exit capacity arrangements will have a deleterious effect on competition in supply due to the highly restrictive requirements for procuring the exit capacity.

This may not have been foreseen during the development of the new arrangements as other aspects of reform preoccupied the industry, but nevertheless it is incumbent on both Users and National Grid to rectify such outcomes through a furtherance of the reform process and the implementation of helpful UNC modifications. Modification Proposal 263 is the first example where an attempt has been made to improve the new arrangements and it has the double benefit of not only facilitating competition but also enhances one of the prime objectives of helping Users to provide meaningful signals for future capacity needs. This proposal should also go some way to assuaging some of the concerns expressed by Users of the Irish pipeline system connected at Moffat; they ought to benefit from more fluid movement and utilisation of capacity than is currently allowed. Given this background, it is wholly reasonable to expect the costs of the proposed changes, coming fairly soon after Mod 195AV was implemented, to be met by National Grid who, one must remember, benefitted from the sale of 4 of its gas distribution networks and who, as a prerequisite to that sale, were obliged to introduce exit reform.

Ofgem's ultimate decision on this could set an important precedent, since a number of other deficiencies embedded within the original 0195V Exit Reform proposal have recently come to light (for example, capacity overrun rules probably need to be revisited, as does the ability for a User to reduce capacity in quantities of less than 100,000kWh which could/will result in some shippers being unable to shed some of their initialised capacity quantities as things stand).

As stated in the proposal, we consider that this proposal enhances the prospects for competition between shippers, and facilitates more efficient investment signals and operation of the network.

Please contact me if you would like to discuss this response.

Yours sincerely,

Chris Wright
Commercial Manager