

30th May 2007

Ms Jan Gascoigne,
UK Transmission Gas Access and Charging
National Grid House,
Warwick Technology Park,
Gallows Hill,
Warwick, CV34 6DA.

Centrica Storage Limited
Venture House
42-54 London Road
Staines
Middlesex TW18 4HF
Telephone 01784 415300
Facsimile 01784 415318
www.centrica-sl.co.uk

box.transmissioncapacityandcharging@uk.ngrid.com

Dear Jan,

Re: National Grid (NG) NTS Entry Capacity Transfer and Trade Methodology Statement.

Centrica Storage Limited (CSL) welcomes the opportunity to respond to your consultation document Entry Capacity Transfer and Trade Methodology Statement.

CSL does not support the proposed methodology statement.

CSL continues to be actively involved with the design and implementation of a regime which will facilitate the trade of sold and transfer of unsold NTS entry capacity for both this forthcoming winter and for the enduring regime. Our overarching conclusion arising from this involvement is that the implementation of the above methodology, together with NG NTS' Modification Proposals 150 and 151 will lead to the sterilisation of capacity and will not facilitate the proposed licence obligations placed on NG NTS.

NG NTS indicates that the fundamental element of the methodology statement is to ensure that costs, particularly those arising from buy back risk, do not increase as a result of effecting capacity trades or transfers. Accordingly it is proposing that capacity exchange rates are determined by the impact the trade or transfer has on forecast expected flows and not the impact they have on baseline capacity.

Our reasons for objecting to this approach are as follows:

1. Transfer rates, based on the impact on NG NTS' forecast expected flows, are arbitrary in their nature, relying too heavily on NG NTS' discretion and its interpretation of risk and reward. For example, we understand that NG NTS proposed use of average demands and average terminal flows when determining transfer rates will produce far lower exchange rates than if peak demands and flows were to be used.

2. The fact that unused entry capacity must be sterilised before any transfer can take place appears to be directly contra to the primary intention of the licence and modification to prevent capacity sterilisation.

3. We believe that the level of risk that NG NTS is being remunerated for, through the allowed cost of capital, includes the risk inherent in the obligation to provide the aggregate level of baseline entry capacity. Therefore, to avoid divergence from this risk remuneration balance, we believe that any reduction in a donor ASEP baseline capacity (reducing NG NTS' overall risk exposure) will need to be offset by an increase in risk at the recipient ASEP. NG NTS' proposals of calculating capacity transfer rates based on expected flow rates will not maintain this balance as it will allow for the reduction of capacity at a donor ASEP without necessarily an increase in capacity at the recipient ASEP. We feel that this concept of maintaining the risk remuneration balance needs to be embedded in the methodology.

4. We understand that Ofgem has stated that exchange rates should only be zero where there is a physical constraint on the network. NG NTS' methodology will allow for a zero rate for the transfer of spare capacity at the donor ASEP even when no constraint exists.

5. It is unclear how this proposal will accommodate temporal issues. In particular we are concerned that where expected flows are forecast to decline, this additional capacity may not be made available to the market.

Finally, CSL believes that NG NTS should be incentivised, through its licence obligations and financial reward, to endeavour to release the maximum entry capacity available to the market. This methodology, which appears to give buy back risk more weight than capacity sterilisation, may distort the economic and efficient operation of the market and conflicts with our understanding of the NG NTS obligations under its licence.

Yours sincerely



Roddy Monroe
Regulation Manager