Dear Kevin,

Re: BGT response to PTL’s Initial Modification Report Re Mod Proposal No 5

BGT acknowledges comments made by PTL in the Initial Modification Report and would like to take this opportunity to offer the following response and clarification.

The Code at present imposes Balancing Charges of 200% and 50% of the Daily Gas Price which can represent a major cost burden on Shippers. This cost burden could have a negative economic effect on a customer’s viability and only creates additional risks for shippers.

These multipliers bear no relation to the costs incurred by PTL or indeed any market related costs for services. They are effectively a penalty as opposed to an incentive.

Shippers’ risks from the present Balancing Charges can be summarised to include:

- Additional risk when using Natural Gas versus alternative fuels
- Financial implications as a result of the charges possibly affecting the viability of the Shipper
- No balancing action taken by the Transporter but imbalance charges will still apply

The EC Commission in their Report Of The Implementation of the Electricity And Gas Directives (3/12/01) state as one of the main obstacles to full competition being “balancing regimes which are non-market based and which are unnecessarily stringent”. BGT believes the current regime to be non-market based. Transporters in other European countries are adopting significantly lower multipliers than 200% and 50%. For example, Fluxys have adopted 130% and 70% and Transco use an entirely different cost base (as alluded to in Modification Number 2).

BGT are not disputing the fact that some form of incentive is required to ensure that the shipper is not permitted to misuse the balancing gas in the system to the detriment of other shippers or PTL. The proposed changes to the Code will, along with the remaining incentives placed upon the shipper, maintain an appropriate incentive to balance.
BGT disagrees with PTL’s statement that “the current…incentive is not unduly penal or anti-competitive”. BGT believes that the current multipliers are very much in excess of any real or market related costs and hence are penal. In addition, BGT believes that PTL has sufficient tools available to it under the Code to manage the system in an “efficient and economic” manner. BGT also notes that PTL acknowledge that the Bord Gáis Éireann Code of Operations was recently amended to move away from a penal balancing regime to similar mechanism now being proposed in this modification.

BGT agrees with PTL’s statement that “…it will be equally important that shippers maintain a balance during the summer months as it is during the winter months”. The reason for proposing an increase in the imbalance charge for shoulder and winter months is aimed at providing an increased incentive on shippers to balance during periods of higher demand in the UK market. However, BGT would be willing to accept a year round multiplier equivalent to average of the proposed multipliers (0.80 for a positive balance and 1.20 for a negative balance) to improve simplicity of implementation and operation. Should this approach be unacceptable to PTL, BGT would be willing to review the operational performance under the new regime after a period of twelve months although we would wish to discuss and agree the criteria on which such a review would be based beforehand.

BGT recognises that given the length of time dictated by the modification process the proposed implementation date of 1st December has now lapsed. BGT is willing to accept PTL’s proposed implementation date of 1st February 2003.

To conclude, BGT believes that the proposed modification meets the relevant objectives contained in PTL’s Licence by maintaining the efficient and economic operation of the Network whilst promoting effective competition between gas suppliers using the Network by the introduction of a less penal imbalance regime.

Yours Sincerely,

Keith Sanderson
Commercial Manager