



Hannah Cook
Wholesale Markets
Office of Gas and Electricity Markets
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13 March 2006

Dear Ms Cook

Impact Assessment on Modification Proposal UNC 006: Publication of Near Real Time Flows at UK sub terminals

BG Gas Services Limited ("BG") welcomes the opportunity to respond to Ofgem's consultation on the above proposed Modification. BG is fully supportive of efforts to improve the functioning of the UK gas market. However BG does not believe that the Modification will have that effect and therefore remains opposed to the proposal, as outlined in our previous responses.

As events in the last few days have shown the UK gas market can be highly volatile. Any proposal that could worsen this volatility, as BG believes it could, should be properly assessed before implementation. Given the many different factors impacting UK gas prices including access to European storage, transport capacity and gas, BG believes it would be better to conduct a full Impact Assessment in the summer when more data will be available, and when the current aggregated data release mechanism will have been in operation for longer.

BG has the following comments on the Impact Assessment.

- BG appreciates the effort that Ofgem has made to quantify the benefits of the proposals, but questions some of the assumptions from which the benefits are derived. For example the Impact Assessment does not explain the mechanism whereby locational flow information at sub terminals benefits a system which balances on a *national* basis at the NBP. In such a system it generally does not matter either where outages occur or their magnitude. It is the overall system balance that is important. On the rare occasion where locational flows are important due to localised constraints, there are adequate mechanisms for National Grid Gas to call for location specific gas, which has the additional effect of letting the market know of a location specific problem.
- Ofgem asserts that the proposal will reduce volatility but it is equally plausible that it could increase volatility. Much depends on market participants behaviour. How would market participants react to a situation where sub terminal flows were reduced during the gas day, but later recovered so that at the end of the day the final balance position was the same as forecast before the reduced flows? At the end of the day the net effect is zero, but it is plausible that prices could have reacted within the day, thereby increasing volatility.

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- On costs to producers as a result of commercial exposure to the market, Ofgem comments correctly that producers, who have a “long” physical position, can choose how to sell their gas and how to mitigate the risk arising from the proposal. However the suggestion that producers hold back gas to sell on the day rather than sell forward would have the effect of reducing liquidity on forward markets. Given the concerns raised by consumers about the ability to buy gas forward, this would appear to be counter-productive for the overall gas market. This point was highlighted in the DTI / Global Insight Report on Forward Gas Markets last year.
- Although Ofgem notes that information is made available in the electricity market in real time which exposes the commercial positions of the affected parties, BG does not believe the comparison is valid because of the different rules regarding trading and balancing periods in the two markets. Simply put, whilst there is within day (i.e. within balancing period) trading in gas, this is not the case to the same extent for electricity which balances every half hour but has a gate closure mechanism before the balancing period. In gas the cash out price is current and clear to all at any point in time, whilst in power the cash out price is retrospective and uncertain. Therefore we believe the risk of front running in gas may be greater than that in power.

If you have any queries please do not hesitate to contact me on 0118 929 3442.

Yours sincerely,

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