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Dear Hannah,

RE: 3rd Party Proposal: Storage Information at LNG Importation Facilities – UNC 104

Thank you for providing the opportunity to respond to this Impact Assessment for the above UNC proposal. We have summarised our thoughts within this covering letter, and provide more detailed responses to specific questions in the attached appendix.

Background and Summary

British Gas Trading (BGT) recognises and supports the need for the right amount of information transparency, in order to ensure a level playing field for all market participants, and efficient and equitable market operation. However, in order to achieve this we do not necessarily believe that more information is always better.

With regard to this particular proposal, BGT did not support its implementation through established UNC processes, our main objection being:

- Flawed basis upon which the requirement on NGG to publish the stock information rests, leading to;
 - Likely discrimination between LNG terminal operators.
 - Creation of a perverse incentive on LNG terminal operators not to enter into arrangements with NGG that would require the divulgence of stock level information.
 - Limited value of the additional information that this proposal would bring to the market compared to the information that is currently available. We do not believe that this additional value offsets the potential detriment created by this proposal.

We believe that if NGG receives data from only one LNG terminal, according to the wording of the proposed UNC change, it will have no option but to publish that data in a non-aggregated form. This will result in discrimination between LNG terminals.

The underpinnings of this proposal also provide an incentive to LNG terminals that wish to avoid publication of stock level data, not to enter into agreements with NGG that would require this information to be passed across. This could, for example, impact operating margin gas arrangement.

Overlaid on all of this, of course, is the ability of parties to reasonably model stock level data under the current regime. Whilst we recognise that this in itself does not provide a reason not to proceed, given that detriments outlined above, we believe that any benefits come with too high a risk.

We have considered the option of delaying implementation until at least one further LNG terminals commences operations. However, there is still a question over whether at commencement of operations subsequent terminals will provide stock level data to NGG for publication. Even if they do, a further question is what happens should they cease to do so.

We therefore recommend that Ofgem rejects this proposal for the above reasons.

I trust these comments are useful, but please don't hesitate to contact me should you have any queries at all about this response.

Yours sincerely

Chris Wright
Contracts Manager

Appendix 1

Responses to specific Impact Assessment questions

Question 1: Do you agree that, on the basis of observations this winter, the Isle of Grain LNG importation facility generally operates as a baseload source of gas supply?

We do not agree that this conclusion can necessarily be drawn. For example, it is evident that the facility did not operate as a baseload provider during the 2005/06 winter. We recognise that since that time, revised UIOLI arrangements have been implemented, and it is likely that some of the change of behaviour observed recently relates directly to this development. However, other factors have also changed, including the less volatile prices prevailing during the 2006/07 winter period, and the differing opportunities for arbitrage. Therefore, with this uncertainty, we do not believe that Grain can be considered to be reliable baseload.

Question 2: Do you agree with the assumption that LNG importation facilities will operate similarly to storage following a diversion of LNG imports away from GB?

Broadly, we agree with this assumption, but believe that this is the case whether or not supplies are diverted away from the facility. Our assertion is that the commercial pressures – that is to achieve the best possible price for the gas in stock – are always in place, but apply over different time scales.

Under normal operating conditions, we would expect the owner of the LNG in the tanks to seek to achieve the best possible price for the gas within the window of opportunity available to them. This is usually dictated by the expected arrival of the next shipped LNG delivery to the facility.

If the delivery schedule were interrupted, we would anticipate that the owners of the gas held at the site will still seek to achieve the best possible price, but in these circumstances they will have a bigger window of opportunity to do so. A further difference is that LNG users do not have the option to recycle, an option that is available with traditional storage facilities and is part of the value decision.

Question 3: Do you agree that the provision of stock information regarding LNG importation facilities would allow market participants to make more informed forecasts of when LNG facilities would flow following a diversion of LNG imports away from GB, and that parties could then factor this into expectations of market price?

A significant bearing on when gas will flow from a LNG facility is the arrival of a new shipment of LNG. Whilst existing long term contracts may drive some deliveries, we believe that increasingly contracts are being agreed on month ahead terms. This renders them much more sensitive to price movements and therefore arbitrage opportunities between markets.

On this basis, in order to try and predict when gas will flow from a LNG facility, the market will need to try and predict when GB prices will be high enough, compared to other markets, to attract cargoes.

Question 4: Do you think that the estimated benefits obtained from our quantitative analysis are reasonable?

We believe that the benefits are overstated. According to the consultation, analysis has been undertaken by comparing a situation that may exist post-implementation of this proposal, to a situation where no data is publicly available.

According to Ofgem's own research set out in this consultation, data already exists to facilitate modeling of Grain stock to within 10% of the actual position on 72% of occasions. Further, it is our belief that a significant number of players in the market who might value this information already carry out such modeling. Any benefits brought forward by this proposal should therefore be assessed against the current baseline where stock data can already be usefully modeled, and not against a hypothetical, information poor background.

We therefore believe that a more ingenuous assessment of benefit would be the marginal gains that implementation of this proposal would bring about.

Question 5: Do you agree that the proposal would improve the economic and efficient operation of the market?

As currently drafted, with the possibility of having data released for a single site, we believe that this proposal will be detrimental to the efficient and economic operation of the market.

However, if aggregated data were to be published for multiple sites, and if those sites operated in accordance with market expectations, then there may be a marginal benefit in providing stock level information.

Question 6: Do you think that our assessment of contract renegotiation required as a result of the proposal is fair?

We understand that this question refers to whether or not the shipper at Grain would seek to prevent NGG having access to stock level information, in order to prevent its wider publication.

On this point, we believe that if stock level data from other LNG terminals is published, leading to true aggregation, the contract at Grain which provides for this data to be cascaded will remain unaffected. However, if only Grain data were to be published (which we believe under this proposal would be inevitable if no other LNG terminal data were published, see below), then we consider that there is a reasonable likelihood that parties at Grain would seek to renegotiate their arrangements, such that this data not be made available. To this end, the somewhat piecemeal approach of this proposal could prove to be problematic.

Question 7: Do you agree that the proposal would improve competition?

We recognise that it could be argued that there could be a competition benefit from making aggregated LNG stock level data from all terminals available to the wider market. However, we believe that any such benefit to competition would be extremely limited, especially when the marginal benefit over the current information position is taken into account.

On the other hand, competition between shippers could be damaged should a situation arise whereby the data from a single LNG facility is made available, with no data available for other LNG facilities. Our response to question 12 outlines how we believe this could happen.

Question 8: Do you think the proposal would positively benefit customers?

If it could be satisfactorily demonstrated that the release of stock level information better facilitated competition between shippers, and in particular led to lower prices, we believe that there could be a marginal rather than material benefit.

Question 9: Do you agree with our assessment of the impact of the proposal on short and long term security of supply?

We believe that this proposal has a negative influence of supply security.

Whilst the proposal was under development, the UNC Transmission Workstream heard at first hand from those involved in LNG, how this proposal would act as a disincentive towards future developments. At a time when prices between different markets are close, and decisions about where to send gas are finely balanced, it may only take a small disincentive in one market to tip the balance about where an operator chooses to do business.

As set out elsewhere in this response, we believe that there is a real risk of LNG stock data from a single site being published. Should a situation transpire where there was a real likelihood of only one terminal's data being published, we believe that this fact would be sufficient for that party to compare the benefits of income from its OM gas contract to the detriment of having its stock data published. A realistic outcome could be that the detriment outweighs the benefit, and the OM contract could be unwound.

Question 10: Do you think that our assessment of confidentiality and commercial sensitivities associated with the proposal is fair?

We do not have any quantitative analysis to challenge Ofgem's thinking, however we believe that commercial detriment is likely to be greater than Ofgem has set out.

Question 11: Do you agree that, given current information available, concerns regarding the commercial sensitivity of the information are largely mitigated?

In respect of questions 10 and 11, we believe that Ofgem has been somewhat partial in its treatment of the commercial sensitivity vs benefits debate. On the one hand, the detriment

to commercial sensitivity appears to have been played down on the basis that some information is currently available. On the other hand, Ofgem believes that significant benefit can be derived from the provision of certainty to the market, even though the IA demonstrates how reasonable assessments of stock levels can be deduced from readily available data.

Question 12: Do you think that if the proposal were implemented prior to more than one LNG importation facility being operational this would be inconsistent with the intent of the proposal to publish aggregate stock information?

Yes, having discussed this proposal through Transmission Workstream, we believe that publishing data from just one terminal would be against the proposer's intention. However, as set out below, we believe that this would be inevitable under current arrangements, and to this end we do not agree with Ofgem's thinking.

In particular, we refer to statements set out at 1.3 of the consultation: "*If the proposal were implemented under current market arrangements, it would only apply to one LNG importation terminal...*" We agree with this assertion. Taken literally within this context, "aggregate" means the average stock level across all facilities for which NGG has stock level information. Having reviewed the legal text provided with this proposal, we believe that NGG would be contractually bound to publish whatever data is has available, even if this relates to just one site.

However, para 3.34 states "*...we would expect [NGG] to indicate that the levels were unknown, rather than publish partial, and potentially misleading, data from those facilities that have made stock information available. Ofgem therefore believes that, in the future, there should be no circumstances under which the stock data relating to only a single facility would be made publicly available.*"

We struggle to see how NGG would not be in breach of the UNC if it acted in accordance with Ofgem's thinking, set out 3.34.

This consultation also raises the possibility of delaying implementation until further LNG importation facilities come on stream, in order to protect the commercial positions of parties at Grain. There are clearly significant uncertainties around whether any new facilities will contract with NGG such that LNG stock information is passed to NGG for publication. Given this, and our belief that NGG will be obliged to publish whatever data is has available even if this relates to just one site, we agree that implementation should be delayed.

However, we do not believe it is appropriate simply to delay implementation pending the commencement of operations at a further LNG terminal. Rather, any delay should be until a new facility operates and provides stock level data to NGG for publication. The underlying principle, we believe, is that there should never be data published for just one LNG import facility. (To this end, should any number of facilities withdraw from providing stock data to NGG such that only one facility continues to provide these data, then publication of stock level data by NGG should again be suspended).

Since we do not believe that this proposal can or will achieve this outcome, we believe that the most appropriate way forward is for Ofgem to reject this proposal. Ofgem could then consider a new proposal, should one be forthcoming, that requires publication only where more than one facility provides stock information to NGG.