



Sonia Brown
Director, Wholesale Markets
Office of Gas and Electricity Markets
9 Millbank
London
SW1P 3GE

Ref: DLNG/MISC/0093

24th January 2007

Dear Sonia:

Dragon LNG Response to Consultation on National Grid Grain LNG Ltd Application for Exemption from Section 19D of the Gas Act 1986

Dragon LNG Limited (Dragon) welcomes the opportunity to respond to Ofgem's consultation regarding National Grid Grain's (GLNG) application for exemption from Section 19D of the Gas Act of 1986 (the "Gas Act") in relation to Phase 3 ("Grain 3") of its LNG importation terminal. Dragon is constructing an LNG importation and regasification facility at Milford Haven. Dragon received an exemption under Section 19C(5) of the Gas Act from the application of Section 19D on 29 March 2005. As a developer of an LNG terminal, Dragon has an interest in the analysis used by Ofgem in granting exemptions and in the conditions placed on other LNG terminals in the UK.

Response to Consultation

In light of the above, Dragon has the following responses to Ofgem's questions:

Question 1

Do you agree with our overall assessment that the proposed exemption should be granted, based on the examination of whether each of the exemption criteria have been met?

Yes.

Question 2

Do you agree with the proposed duration of the exemption?

Dragon agrees with Ofgem's view that the exemption should last "up to 20 years or until October 2029 at the latest." A duration of this length is in accordance with industry practice and the end date is consistent with GLNG's proposal.

Question 3

Do you agree that the proposed exemption should be subject to re-examination by the Authority, and if necessary to amendment or revocation, once the actual allocation of capacity through the open season process is known (particularly in the event that the outcome of the open season differs from that as represented by GLNG in its additional information and undertakings)?

A re-examination appears prudent in these circumstances where the impact on market concentration could potentially differ (i.e. have a detrimental effect on competition) from the impact currently envisaged.

Question 4

Do you consider the competition assessment to be complete, and that it provides you with sufficient information on which to comment?

The fact that Grain 3's future customers are confidential does not provide sufficient information to make a proper assessment. Dragon cannot make an assessment whether market concentration is increased or reduced by the construction of Grain 3 on the basis of the information provided.

Question 5

Do you agree with the assumptions underlying our competition assessment, as outlined in Appendix 4?

Dragon has no view on these assumptions.

Question 6

Do you agree with our views on the definition of the relevant market? In particular, do you consider the flexible gas market remains the appropriate market definition for considering the effect on competition for the development of a new LNG importation facility?

Ofgem has defined the flexible gas market to include LNG, Long Range Storage (LRS) and Medium Range Storage (MRS). Dragon's view is that the market impact of contracted LNG import capacity should be assessed in the widest possible market. LNG is an alternate way of transporting gas and therefore should not be considered differently than pipeline gas in a competitive analysis. Dragon agrees with Ofgem that a narrow definition of the market (i.e. LNG alone) is not appropriate for this competition assessment. Dragon supports using Ofgem's broadest definition of the market which includes LNG, LRS, MRS and gas imports (e.g. from Langeled, IUK and BBL).

Question 7

Do you agree with our views that granting an exemption for Grain 3 would not have a detrimental impact on competition in any European gas market?

Yes.

Question 8

Do you consider that there should be any additional conditions attached to the proposed exemption?

No.

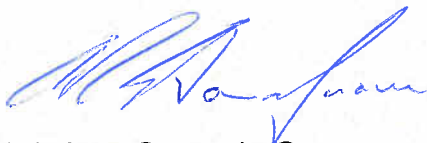
Question 9

Do you think that we should develop a guidance note on anti-hoarding arrangements to apply at LNG importation terminals?

The specific anti-hoarding arrangements adopted by a terminal will affect the primary capacity holders and also have an impact on the terminal's ability to attract base customers. Dragon welcomes guidance by Ofgem on minimum requirements if developed in consultation with the terminals and their primary capacity holders. A collaborative effort will not only help LNG terminals in shaping their anti-hoarding arrangements creating a level playing field; it will also provide legal security and regulatory certainty that the adopted arrangements are considered appropriate. In this context, Dragon notes that there are considerable costs associated with developing and implementing a robust anti-hoarding mechanism. Guidance by Ofgem will help to minimize these costs.

I hope the above comments are useful. If you have any queries please do not hesitate to contact me on 01646 691730.

Yours sincerely,
For and on behalf of Dragon LNG Ltd



Christiaan Storm de Grave
commercial manager