



PETGAS TRADING (UK) LTD

Hannah Cook
Office of Gas and Electricity Markets
9 Millbank
London
SW1P 3GE

12 April 2007

Dear Hannah,

Impact Assessment re 3rd Party Proposal: Storage Information at LNG Importation Facilities Modification Reference Number UNC 104

Petgas Trading (UK) Ltd ("Petgas") would like to submit the following in response to the above Impact Assessment (IA) issued by yourselves on the 1 March 2007.

In summary we have not changed our overall view as expressed in our previous response to Mod 104, that is – "To our knowledge, an LNG Importation Facility provides, as is required by the UNC, the same level of information as that of any other system entry point that is delivering natural gas into the UK. As such to require an individual system entry point to provide an additional level of information would appear to be clearly discriminatory. Further we do not believe that this information would provide the industry with anything more useful than the subterminal flow information that is already published". We maintain this view whether the information is published by facility or in aggregate.

With respect to the Impact Assessment, we note that the supposed benefit of this proposal is very marginal (£1.6 million to £20 million over a 15 year period), particularly when taken against the context of the overall size of the UK traded gas market. The fact is that the information being requested can already be derived as you acknowledge in the IA. If some customers do not understand the system sufficiently to be able to do this, then there is a serious concern that they would not be able to properly interpret this additional information if provided in the manner suggested by the proposal.

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We believe that approval of this type of marginal proposal fails to recognise the wider damage that can be created in terms of market uncertainty and instability. Further it gives credibility to the concerns raised by market players when it was debated whether or not third parties should be able to raise modification proposals, that it is very difficult to separate information provision from the direct commercial implications for UNC parties. It would give a more positive signal to the market if the proposal were to be rejected on the grounds that its benefits are sufficiently insignificant. Doing so would discourage any precedent that “change just for the sake of change” is allowed.

On the assumption that you intend to implement this modification, we would support the proposal that it should not be implemented until there are a number of LNG facilities operating. However we would also suggest that, as you clearly believe the information to relate to storage gas, it should be aggregated into the overall storage figure that is currently reported, rather than reported separately. Why complicate the market further by creating a new category of gas, if you really believe that the LNG terminal will operate as a storage facility under certain circumstances?

In terms of the specific questions that you have posed in the IA, our answers are as follows:-

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

Yes - in the same way that most gas supply facilities do during a UK winter

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?

No not necessarily – it depends on the reason for the diversion, the current and forecast market conditions, the contractual arrangements between the facility operator and the shippers at the facility, the expected timing of further cargoes etc.

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 expectation of market price?

It would provide information (which can already be derived) and thus would allow market participants to continue to make informed forecasts but these forecasts should be treated with caution for the reason given in the answer to Question 2. We continue to believe that the level of information currently provided to the market re overall supply and demand is sufficient to support the satisfactory operation of the market.

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

The analysis produced in Appendix is extremely simplistic and the decision to implement should not consider the outputs. At the highest level, it is understood that the trading community which will impact the prevailing price, will be able to calculate stock levels without having to rely on their publication. The 50% reduction in benefit to account for “extremes” in no way reflects the modelling capabilities of the trading community. In addition and as shown in the Grain analysis, on the basis that it is not certain that LNG terminals will behave in the manner implied in the analysis, then again we would argue that the reduction should be significantly increased. Finally, the analysis implies a high level of “economic capture”, which as all Storage operators will confirm is a highly optimistic standpoint. It would be reasonable to expect that the capture rates in a volatile market would be significantly lower than those implied in the analysis.

To suggest that the price model produced in any way reflects the price responsiveness of a single variable, that being the publication of LNG stock information is somewhat misleading and as we previously stated far too simplistic. In our view, and one we would argue which is more subjective than that put forward by Ofgem, the level of discount applied to the benefit reduction should be far higher, if not 100%, due to the uncertainties we have identified.

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

No, as we do not believe the Impact Assessment has demonstrated a convincing benefit for the proposal.

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

We have not answered this question as the only reference we can find in the document to the likelihood of contract renegotiation relates to the Isle of Grain and only the Isle of Grain can comment on this.

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

We remain unconvinced as to whether or not the proposal would improve competition for the reasons given earlier.

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

Answered previously.

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

We do not see the relevance of this proposal to security of supply.

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

Answered previously

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

Answered previously

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 aggregated stock information?

Answered previously

We trust you find our comments useful and if you have any questions then do not hesitate to get in touch.

Kind regards,



Saheera Ahmad
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