



30th May 2007

Philip Davies
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Dear Philip

BG Gas Services Limited Response to Ofgem Open Letter on UNC Modification Proposal 104.

BG Gas Services Limited (“BG”) welcomes the opportunity to respond to the points you raise in your open letter dated 18th May 2007. Whilst BG appreciates the efforts that Ofgem is undertaking to consult the industry, it is a matter of concern that the process for Modification 104 is taking so long that it is now more than five months since it was sent to Ofgem for a decision.

On the issue of the intent of the proposal, BG believes Ofgem is missing the point by attempting to clarify what respondents think the Proposal intends. If a Modification Proposal is so unclear that it can have different interpretations, it should not be approved by Ofgem. As previously noted, ample opportunity was given to the Proposer in the modification process to improve and clarify the Proposal but this opportunity was not taken. As the UNC represents a contract between National Grid and shippers it is essential that there is clarity. Approval of the Proposal would simply create unnecessary regulatory and contractual uncertainty.

BG also notes that Ofgem appears to have changed its views between those of the Impact Assessment Consultation and the Open Letter. In the former, Ofgem said that “Ofgem therefore believes that, in future, there should be no circumstances under which the stock data relating to only a single facility would be made publicly available.” (Paragraph 3.34). In the Open Letter, Ofgem now says that it “does not currently consider that the intent of the proposal is to delay implementation until further LNG facilities have begun operation.” In light of this uncertainty BG believes the only reasonable course for Ofgem is to reject the Proposal.

BG is also perplexed as to how Ofgem can claim that “the benefits of greater market transparency would be significant.” Ofgem’s own medium case scenario gives an NPV benefit of £8 million spread over 15 years. A figure of £8 million represents a mere 0.05% of the value of the UK wholesale gas market in 2006 alone; the benefit would clearly be an insignificant percentage of the NPV of the UK wholesale market over the next 15 years. Any claim that the purported benefits of the Proposal, which in any case are based on a flawed methodology, are significant does not stand up to scrutiny.

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Lastly, BG remains unconvinced about the scope of the UNC with regard to the Proposal. As set out in your open letter, Ofgem clearly appears to be taking the view that the scope of the UNC extends to “gas in store (which may be introduced into the NTS) at LNG importation facilities”. However, this view ignores that fact that no gas is stored at an LNG importation facility. Whilst “peak-shaving” LNG plants may be used to convert gas into liquid in order to store it temporarily before regasifying it for future use, this is very different from an LNG **importation** facility where no “storage” of gas takes place. Indeed, the only “storage” at such a facility is the storage of LNG itself i.e. a liquid product which requires careful and controlled processing to be regasified.

Furthermore, as we have previously pointed out in our response to the original consultation (“BG Gas Services Limited Response to Code Modification Third Party Proposal 104 Storage Information at LNG Importation Facilities ” 27th November 2006), UK legislation (Statutory Instrument 2004 No. 2043 the Gas (Third Party Access) Regulation 2004) specifically excludes LNG import terminals from the definition of storage. An LNG import facility is defined (Schedule 2 paragraph 6) as “ a facility for the following

- (a) importation of liquid gas
- (b) the regasification of liquid gas following its importation and prior conveyance to a pipeline system operated by a gas transporter
- (c) any temporary storage of liquid gas which is necessary for the operation of a facility.”

The definition of a storage facility includes a facility for “the storage of liquid gas” but “does not include such temporary storage as is mentioned in paragraph (c) of the definition of “LNG import facility”.

LNG import terminals, in common with other beach terminals, do have arrangements with National Grid for introducing gas into the NTS, but these of course concern gas that has already been regasified, not LNG itself. Ofgem therefore appears to be stretching the definitions of the Licence too far upstream. Following Ofgem’s logic, the UNC would also cover LNG on ships, including those with on-board regasification capability, and perhaps even LNG in storage tanks at the original liquefaction plant prior to loading onto ships, as this too would be gas to be introduced into the pipeline system. Hence BG does not agree that the definition of “transportation arrangements” in Standard Special Condition A3(1) was intended to include any arrangements with LNG importation facilities regarding LNG storage, and as such Standard Special Condition A11 does not apply.

In summary BG believes that Modification Proposal 104 is badly conceived, poorly drafted and of questionable value. It therefore does not meet the relevant objectives and should be rejected by Ofgem.

Should you have any queries on the above please do not hesitate to contact me on ++ 44 118 929 3442.

Yours sincerely,

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