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Winter 2007/08 Preliminary Consultation Report

Dear Andrew

We welcome the opportunity to comment on the above consultation. We consider that it is important to recognise that as the aggregator of the industry data supplied for example via the Transporting Britain's Energy process, National Grid is uniquely placed to assess the overall supply and demand situation regarding next winter, and that as an individual market participant there are significant limitations as to the comments that BP or for that matter other participants are able to make in relation to this document. We are not therefore able to offer assurance on the accuracy of the overall scenarios that National Grid present, but can only comment on certain elements of the consultation.

We fully support National Grid's consultation process as it is important that accurate estimates of supply and demand are developed in preparation for next winter, particularly as the predicted supply/ demand position provides market signals to which participants can respond to address any supply/ demand imbalance.

We wish to offer the following comments on the consultation document.

UKCS Supplies

UKCS supplies will remain the mainstay of UK gas supplies next winter despite the fact that new import infrastructures have come on-stream over recent years, and further capacity is expected online for next winter.

We note that this first winter consultation understandably contains input from the TBE 2006 consultation, and that the second winter consultation will contain a more up to date picture as TBE 2007 data will be fed into the consultation scenarios. It therefore seems sensible to await the inclusion of this more recent information before commenting further on UKCS supply scenarios developed by National Grid.

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Entry Capacity Baselines

The transmission price control saw the reduction of baseline capacities by an average of 13% to be sold at existing system entry points, and a rebalancing away from some beach terminals and LNG facilities. In particular, the revised baselines have been reduced below historical physical flows at Teesside and the Isle of Grain, and below expected flows at Easington and Bacton, given additional capacity requirements for recently completed import infrastructure. Capacity allocated to new onshore storage facilities has been increased, by a lesser amount giving an overall reduction of over 5%.

Without any other changes, the effect of this has been to reduce the risk to NGG of capacity buy-back, and increase risk to shippers at the affected terminals of being unable to land marginal gas on any day.

The effect of this is that it will deter incremental values at the affected terminals. Reduced certainty of being able to obtain capacity and an increased reliance on interruptible services will increase the risks on those who could deliver gas.

It should also be noted that a capacity transfer mechanism was intended to accompany the reduction in baselines as part of the implementation of the latest Transmission Price Control but has not as yet been delivered. This has all added to further the uncertainty surrounding the auction mechanism and therefore could impact on the deliveries of additional supplies onto the NTS.

LNG import

LNG operates in a global market, with countries competing for a finite number of LNG cargos and therefore it is possible that in a world market which is operating efficiently, UK LNG import terminals will not necessarily operate at full capacity, even at times of peak demand in the UK.

With respect to likely flows through the Grain LNG import terminal, BP can only comment with respect to its half of the facility's current capacity. BP is fully incentivised to maximise utilisation of the capacity, and our actual deliveries will be driven by market conditions, availability of suitable LNG cargos and be subject of course to plant performance.

Interconnector

The evidence suggests that last winter, IUK flows did seem to be the marginal source of gas, responding only to price signals when other forms of supply could not match the demand in the UK. However, it is important to note that in cold winters in the UK and Continental Europe, the Interconnector will only respond to prices up to a certain point, there are times when the lack of available gas supplies due to factors such as Public Service Obligations and the corresponding financial penalties would ensure that IUK is unable to respond purely to the higher prices in the UK.

Gas Quality

Gas quality remains a potential issue which might prevent the importation of gas from continental Europe under certain specific circumstances, and could therefore adversely affect trading between NBP, Zeebrugge and TTF. Despite the useful work undertaken at the Ofgem-led workshops, a number of uncertainties remain, which are likely to deter shippers from making long term commitments to underwrite investment to address this.

BP considers that there may be few shippers prepared to make long term commitments to underwrite capacity in a blending or ballasting facility. Therefore, under the so-called 'hybrid' approach, which relies on user commitment for 100% of the available capacity, a ballasting facility is unlikely to be built. BP is hopeful that the National Grid led gas quality workstreams will be willing to consider different variations on the Ofgem hybrid model, for example a 50% user commitment model could be adopted and the investment placed in National Grid's regulated asset base to provide National Grid with a greater level of certainty. Without a pragmatic solution, gas quality could pose a real problem on days when marginal sources of gas from Europe will be needed in the UK to alleviate supply / demand tightness.

We trust that these comments are helpful, please do not hesitate to contact me if you wish to discuss any aspect of them.

Yours sincerely,

Andrew Pearce
Regulatory Affairs