8th May 2007

Mr. Colin Green
Head of projects – transmission
Office of Gas and Electricity Markets
9 Millbank
London
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Re: Transmission Price Control Review: Third Consultation on draft licence modifications (Gas transmission)

Dear Mr Green,

Excelerate Energy appreciates the opportunity to comment on the above licence conditions. As requested, we are commenting on matters of substance to support the Ofgem timetable for the completion of the new licence.

As we have set out in previous consultation responses, our concern relates to the provision of capacity at Teesside to accommodate gas from our facility at Teesside following the 53% reduction in Teesside baseline implemented by Ofgem and as shown in the following table:

	Previous baseline 2002-2007	**Ofgem initial May 06**	**Ofgem Dec 06 = new baseline for 2007 - 2012**	**Baseline reduction**
St Fergus	154	163	154	0
Teesside	70	63	33	37 (53%)
Glenmavis	9	9 *	3	6 (67%)
Barrow	66	62	28	38 (57%)
St Fergus* Teesside total	224	226	187	
Northern Zone total	299	297	218	81

* not given in initial proposals

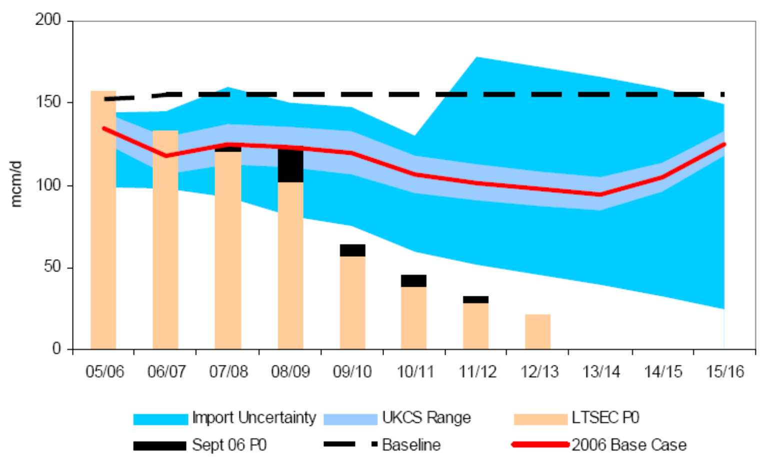
We believe that the > £1 billion being invested by National Grid in new entry capacity at Easington, Bacton, Isle of Grain and Milford Haven, coupled with the decline in UKCS flows from St Fergus will deliver a highly flexible network by winter 2008/9 with no significant capacity constraints under reasonably foreseeable scenarios. To that end, we believe that the new licence should be tested against possible flow scenarios in winter 07/08.

National Grid has issued a draft methodology for transfer of unsold capacity and has also, at the Transmission Workstream on 3rd May 2007, presented examples of exchange rates that may apply at Teesside and Easington. This has identified that there is a key issue of principle that is fundamental to the transfer of capacity between terminals being able to deliver any additional capacity. National Grid indicates that **"the fundamental element of the methodology statement is to ensure that costs, particularly buy back risk, do not increase as a result of effecting the trade or transfer."**

At the time the new baseline was set for St Fergus, National Grid was forecasting possible flows of above the baseline level for winter 2007/8, as shown in the following graph published in the National Grid Ten Year Statement in December 06.

Gas Transportation Ten Year Statement 2006

FIGURE A2.4G – Peak St. Fergus Forecasts (Mcm/d)



Given this, the transfer of unsold St Fergus capacity to Teesside would have reduced the risk of capacity constraints at St Fergus while increasing risk at Teesside. However, National Grid is now forecasting significantly lower flows at St Fergus, with the maximum flow expected to be around 110 MCMD. Thus National Grid is saying that any additional gas flows at Teesside are not balanced by reductions at St Fergus and so, for there to be 'no increase in level of buyback risk' National Grid is indicating that it is likely that all unsold St Fergus capacity (likely to be around 20 MCMD) may only deliver 2 MCMD of Teesside capacity. In effect, National Grid is arguing that, as flows at St Fergus fall, the capacity in the NTS will also fall. National Grid believes that this reflects the final proposals made by Ofgem. In the Licence drafting page 69, section 8 d (ii), Ofgem drafting says in relation to capacity transfers that they should be "avoiding **undue** increases in the costs".

Rather than debate what is 'due' and what is 'undue,' Excelerate Energy believes that the Licence should have the concept of an aggregate Northern Zone baseline (and similar for other areas such as Easington). This would mean that the total capacity should be 218 MCMD in total, so, as St Fergus flows decline, this releases more capacity at Teesside. If after the AMSEC auctions a total of 135 MCMD St Fergus + 3 MCMD Glenmavis + 28 MCMD Barrow + 33 MCMD Teesside has been sold, this would give aggregate sales of 199 MCMD, meaning that an additional 19 MCMD would be made available in the AMTSEC auctions, on 1 to 1 basis. In addition, Excelerate believes that the UNC (Section B2.5.10) should be modified to move limits on interruptible sales at a terminal from an individual entry point to the aggregate within the zone.

We agree that this increases the risk to National Grid compared to the present Licence drafting and hence we believe that any flows above baseline at any terminal should be subject to an additional incentive. For example, if Teesside flows were 40 MCMD, then all flows above the 33 MCMD baseline would give an additional reward to National Grid, equal to (for example) 10 – 20% of the TO Commodity charge. We believe that it should be possible for National Grid and Ofgem to agree an additional incentive for winter 07/08 that addresses the issues associated with capacity at Teesside and Easington.

If the above is implemented, it would give a hierarchy of opportunity to buy capacity at Teesside for winter 07/08, as follows:

1. Buy in AMSEC auction (limited to 33 MCMD total for Teesside)
2. Buy in AMTSEC (likely to be limited to 18 MCMD of additional capacity between Glenmavis and Teesside)
3. Buy interruptible capacity if St Fergus flows are only at the 110 MCMD level.
4. Buy non obligated capacity (if any is made available)

We hope that Ofgem is able to consider the above as a way of creating the right incentives for efficient operations in winter 07/08 at Teesside, Easington and elsewhere.

Yours faithfully,

Rob Bryngelson

Rob Bryngelson,
Executive Vice President and Chief Operating Officer