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*Promoting choice and
value for all customers*

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Date: 18 September 2007

Dear Mr Boreham

Anti-hoarding arrangements at the Isle of Grain LNG importation facility

I am writing to you following the introduction on 31 August 2007 of new (anti-hoarding) arrangements for third party access to the Isle of Grain LNG (Grain) terminal in the event that the Joint Shipper (BP/Sonatrach) is not utilising capacity acquired through the open season process. You have indicated that these arrangements will be operational from 3 October 2007¹.

The introduction of these arrangements follows a lengthy process which has included a failed attempt to introduce revised anti-hoarding arrangements for winter 06/07. We are writing now to set out our position on this issue.

We are writing to you as the holder of an exemption order under section 19C(5) of the Gas Act 1986 (the exemption order). As you are aware, the exemption order was granted on the basis that Grain LNG (GLNG) would put in place effective anti-hoarding measures which would allow spare capacity to be made available to the market. The ultimate objective of such measures is to ensure that spare capacity can be obtained in a transparent market based manner by third parties so as to prevent hoarding of the capacity and allow maximum use.

In late 2005 we started a dialogue with you and the Joint Shipper following concerns that Grain was not being fully utilised despite price differentials indicating that the terminal should have been fully used.

In summer 2006 we understood that revised anti-hoarding arrangements were being put in place and publicly welcomed the efforts to do so. However, these revised arrangements were not implemented at that time. Ofgem is extremely disappointed that this was the case and also that we were not notified about this situation for several months. We welcome the assurances that effective anti-hoarding arrangements will be in place for winter 07/08.

As we have previously discussed, we will not formally approve the new arrangements to be put in place at Grain. Rather, it is for GLNG to ensure and demonstrate that there is a transparent mechanism that allows spare capacity to be made available to the market so as to maximise the use of the facility. It is important to recognise that this is an ongoing requirement and that revisions may be necessary in the light of market developments or

¹ This is in line with the information published on the Joint Shipper website <http://www.lngga.com/>.

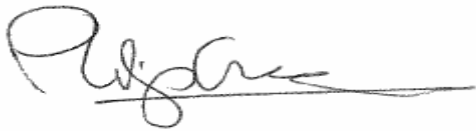
evidence that the arrangements you have put in place are not effective. In short, it is incumbent upon you to ensure the ongoing effectiveness of anti-hoarding arrangements.

As you would expect, Ofgem will be monitoring closely the effectiveness of these revised anti-hoarding arrangements. In the event that, following substantiated complaints or on the basis of our own monitoring, we develop concerns regarding the use of Grain, we would review the exemption order.

In such a case, we would invite submissions from GLNG, primary capacity holders and any third parties and market participants to obtain their views on the utilisation of the terminal capacity and how effectively the anti-hoarding mechanisms had been implemented.

Should you wish to discuss the content of this letter further, please do not hesitate to contact me or alternatively, Carlos Martinez on 020 7901 7070.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Philip Davies', with a long horizontal flourish extending to the right.

Philip Davies
Director, GB Markets

Cc: Simon Cattle (BP Gas Marketing Limited), Mohand Bouadi (La Société Sonatrach).