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Monday, 17<sup>th</sup> September 2007

Dear Robert,

**RE: LNG Storage price control - Initial thoughts - 202/07**

We welcome the opportunity to respond to this consultation. Please note, we have deliberately not answered all the questions posed in the consultation, but have addressed those where we feel we can provide additional insight.

***Question 1: Do you agree that it is feasible for competition to be introduced in this sector in the medium term? What obstacles are there (if any) to introducing competition?***

Although the introduction of competition would seem, in theory, the right thing to do, we would question whether it is economic to fully deregulate LNG storage at this point in time. Although it is possible for deregulation to take place, it may simply not be economic or commercially justifiable for anyone else to enter the market to compete with National Grid. The ability of LNG storage to deliver flexibility at absolute peak makes finding substitute solutions very difficult. Demand side response may offer a solution, but with for the degree of confidence and safeguards necessary for the provision of OM gas and to resolve locational transmission constraints, it's difficult to see a viable alternative to the current arrangements.

If, as seems possible, there is no interest from other parties in competing with NG LNG to provide services to the TSO, then it would be sensible to retain the *status quo*, irrespective of any Licence conditions introduced

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through the TPCR.

***Question 3: Are there any other issues that should be deemed to be within the scope of the control e.g., is an Impact Assessment required?***

We would welcome an Impact Assessment that clearly articulates the quantifiable costs and benefits of opening up the LNG storage market to competition. It would be advantageous to conduct such an Impact Assessment at the start, rather than at the end of the industry consultation process.

I hope you find these comments useful in developing the way forward.

Yours sincerely

**Richard Fairholme** (by email)  
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