ROB BRYNGELSON
President and Chief Executive Officer

29 October 2007

Mr. Robert Hull
Director, Transmission
OFGEM
9 Millbank
London SW1 P 3GE

RE: Summary Report on Entry Capacity Baseline Workshops

Dear Mr Hull,

Further to the request by Ofgem in the Baseline Re-consultation Document, we have reviewed the National Grid summary report following the recent workshops.

Capacity Allocation

Rather than comment in detail on every point, we believe that the key areas relate to the use by NG of 4 methodologies to allocate the 1554 GWh/d that they believe to be 'spare' (NG para 34). In our response to the Baseline Re-consultation we will discuss the issues associated with use of 10 YS forecasts for this purpose.

- Allocate the 1554 GWh/d based on a **review of sales in the 2007 AMSEC** auction. If all capacity at an ASEP was sold out then such ASEP would be given an additional tranche of capacity, prior to subsequent allocations, reflecting the value of the AMSEC user commitments and the fact that sold out ASEPS will have to pay more for capacity than ASEPs with spare capacity which only pay the reserve price.

    - For example, such an ASEP could receive 20% increase in capacity, provided that such capacity did not breach the zonal or nodal maxima. For Teesside, this would not breach the zonal maxima and hence 20% capacity could be provided, taking the baseline to around 433 Gwh/d.

    - Additionally, and as noted above, there could be 30% increase in capacity, taking the baseline to around to 469 Gwh/d.

- Allocate the 1554 Gwh/d **in proportion to the difference between the baseline 2007-12 level and the latest forecast by NG provided in their 2007 Transporting Britain's Energy.**

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ASEP	NG latest view for 2007/8	2007-12 baseline	Baseline minus latest
St Fergus	123	154	31
Bacton	76	164	88
Barrow	22	28	6
Teesside*	35	33	-2
Theddlethorpe	29	56	27

*** 24 MCMD without any Excelerate gas, 35 MCMD with Excelerate**

This methodology would not allocate any capacity to Bacton, St Fergus, Barrow or Theddlethorpe, until capacity was allocated to Teesside.

Note – we have already seen in winter 2007/08 flows at Teesside which are higher than the 24 MCMD forecast from NG. No other ASEP has had flows higher than the NG forecast.

- Do not allocate any capacity to an ASEP that is for flows higher than any scenario in the 2007 TBE:

ASEP	NG's highest flow forecast from the 2007 TBE in any future year	2007-12 baseline	Baseline minus highest forecast from the 2007 TBE in any future year
St Fergus	130	154	24
Bacton	150	164	14
Barrow	22	28	6
Teesside*	33	33	0
Theddlethorpe	27	56	29

***** NG say that they have capped any Teesside flows at the baseline level and have not taken a base case for CATS flows and added on Excelerate flows (16.5 MCMD from Oct 08).

It is not efficient to allocate capacity to an ASEP over and above any foreseeable gas flows.

Graphs for individual ASEPs shown below.

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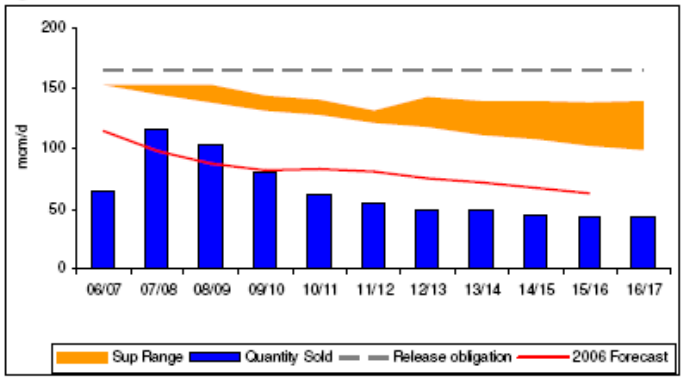
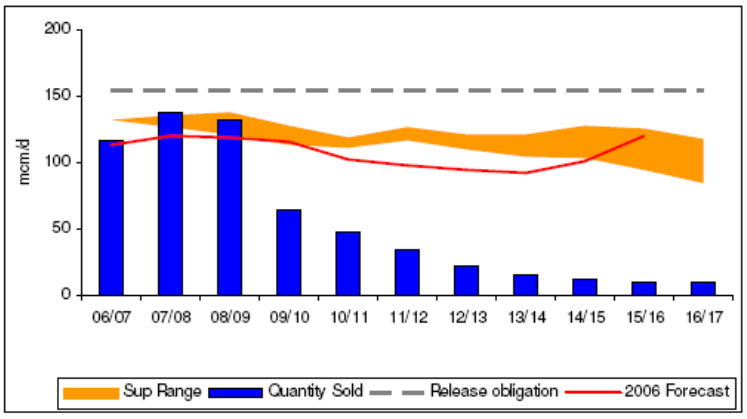
Figure 12 – Bacton



Our peak forecast range for Bacton includes BBL and an assessment of IUK at peak. The gradual decline in Bacton is due to UKCS decline. The difference from our 2006 forecast relates to assumptions regarding IUK flows.

TBE 2007 – Development of NTS Investment Scenarios

Figure 16 – St Fergus



The peak forecast range for St Fergus remains relatively high due to uncertainty over flows from the UKCS (includes West of Shetland possibilities) and Norway (Vesterled, Tampen / Flags and possibly Troll). Our latest forecast is above our 2006 forecast due to higher Norwegian imports through Vesterled and the Tampen Link.

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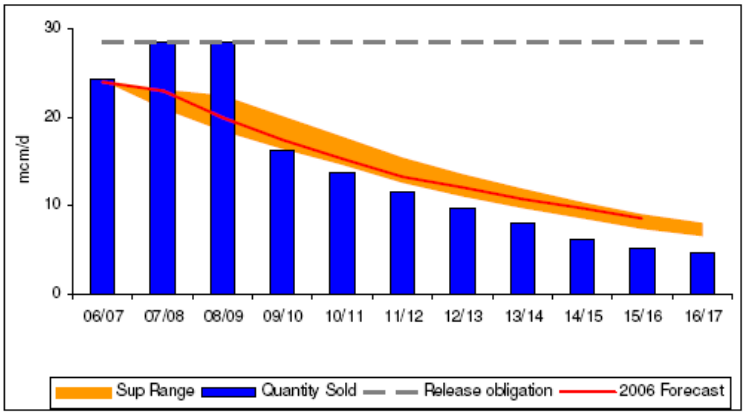
Figure A10 – Barrow



The chart for Barrow shows that our latest peak forecasts are broadly in line with capacity sold. For Barrow our forecast range excludes proposals for LNG importation and possible new offshore storage. For planning purposes both of these are considered through our 'generic' approach for both LNG and storage. In term of comparison with our 2006 forecast, there is very little difference in our latest view.

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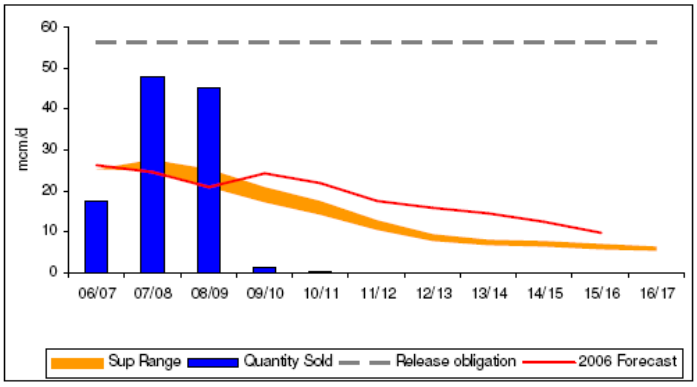
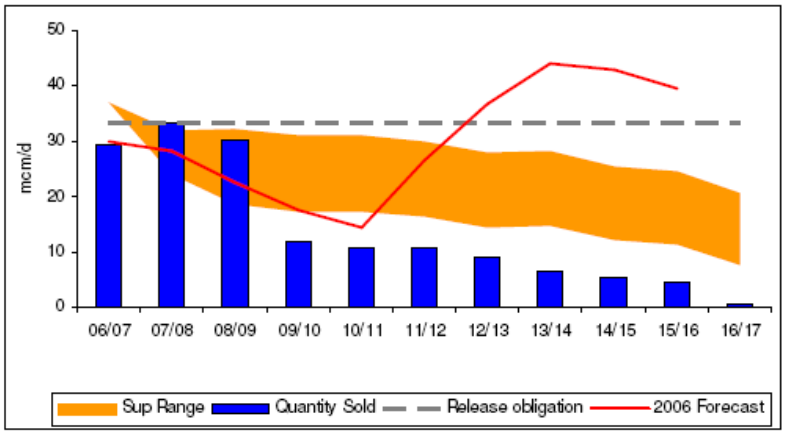
Figure A12 – Theddlethorpe



Our Theddlethorpe peak forecast is made up of UKCS supplies, these are in gradual decline. Capacity sold in 07/08 and 08/09 is higher than our forecast range, possibly reflecting industry developments towards 'capacity transfer and trade'. Compared to our 2006 forecast, our latest forecast does not show the possibility of an Excelerate type project post 2009/10.

Figure A11 – Teesside



The chart for Teesside shows that our latest peak forecasts are within the current capacity release obligation. For Teesside our forecast includes an allowance for Excelerate LNG, but not specifically the ConocoPhillips LNG project. This has been captured under our 'generic' LNG approach. Compared to our 2006 forecast, our latest forecast is similar through to 2010/11, but then materially lower due to our 'generic' LNG approach.

- Allocate the 1554 Gwh/d based on a **comparison of the previous baseline and the new one, reflecting a transitionary arrangement**. Rule could be that no baseline will reduce by more than 25% of its previous baseline. This would mean that Teesside's baseline could only reduce to 0.75*761 = 570 Gwh/d.

- Allocate the 1554 Gwh/d by **comparing the maximum flow during winter 2006/7 with the proposed 2007-12 baseline**. If the maximum flow was higher than the proposed baseline then this would entitle the ASEP in question to a higher baseline allocation. Teesside flows were as high as 383 Gwh/d during winter 06/07, it is not believed that any other ASEP saw flows above baseline apart from Easington. The result of higher flows could be, for example, that for every 1% flow above baseline, the ASEP receives a 5% increase in baseline allocation (subject to zonal and nodal max). This would give Teesside a baseline of around 30% higher (6% *5) = 469 Gwh/d.

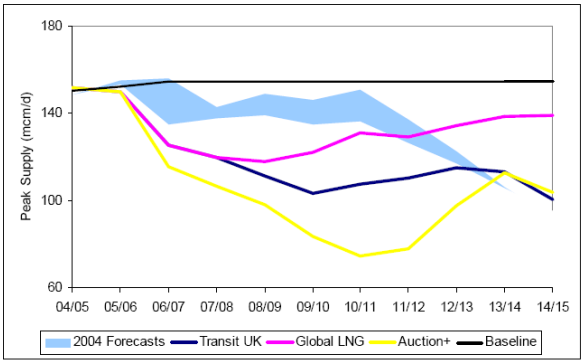
- Allocate the 1554 Gwh/d by **comparing the maximum flow during any of the past 3 winters (04/05, 05/06 and 06/07) with the proposed 2007-12 baseline.** If the max flow was higher than the proposed baseline then this would entitle the ASEP in question to a higher baseline allocation. The allocation methodology could be that baselines will not be reduced BELOW any flows achieved during the last 3 years.

NTS Constraints and Buyback Risk

The graph below left shows the St Fergus forecast from the 2005 TBE, the scenarios used to set the 2007-12 baselines. The right had graph shows the St Fergus forecast

issued in the 2007 TBE and prior to the abandonment of the Troll project which was the main source of increasing St Fergus flows in later years, despite UKCS decline.

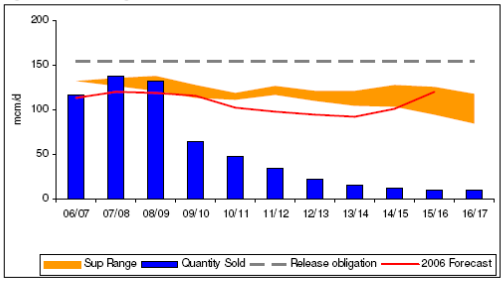
Figure 12 – St Fergus - Supply Scenarios



The chart for St Fergus shows forecast flows for our 2005 scenarios that are generally lower than our 2004 forecasts. The decline post-2006/07 is due to a combination of assumptions: that Norwegian imports utilise the Langeled pipeline to Easington, displacing flows through Vesterled; to a lesser extent, that production from a number of mature UKCS fields declines more rapidly than previously anticipated and that some expected UKCS developments have been deferred. Thereafter, depending on the supply scenario, St Fergus flows increase as Norwegian gas starts to fill both Vesterled and FLAGS (through the Tampden Link). In the Global LNG scenario, additional gas is assumed to flow into St Fergus post-20012/13, which could, for example, represent either a West of Shetland development or further Norwegian supplies through existing UKCS infrastructure.

TBE 2007 – Development of NTS Investment Scenarios

Figure 16 – St Fergus



The peak forecast range for St Fergus remains relatively high due to uncertainty over flows from the UKCS (includes West of Shetland possibilities) and Norway (Vesterled, Tampen / Flags and possibly Troll). Our latest forecast is above our 2006 forecast due to higher Norwegian imports through Vesterled and the Tampen Link.

The decline in St Fergus and Barrow flows should mean that capacity is available for Teesside gas. The following table shows the peak flows on any day in the last 5 years including winter 2006/07 in the period to Ofgem making its final proposals:

	St Fergus peak MCMD	**Peak flow compared to baseline**
2002/03	140	-15
2003/04	139	-16
2004/05	145	-10
2005/06	131	-24
2006/07	123	-32

The 2005 TBE used to set the baselines assumed high gas flows at both Bacton and St Fergus. Flows at these ASEPs both cause a reduction in the level of the Teesside free increment as St Fergus gas uses the same infrastructure as Teesside south of Bishop Auckland and so has a 1 to 1 relationship with Teesside. Bacton also has a strong relationship as every 1 MCMD flowing north from Bacton reduces flows possible southwards from Teesside.

Given the forecast lower flows at Bacton and St Fergus since the 2005 TBE, it would be helpful if NG could provide evidence of where the constraints are in the NTS, in the context of the current large NTS investment programme and declining UKCS flows. This information was requested at the workshops but not provided.

If the Teesside baseline was set at 50 MCMD for example, with corresponding slight reductions at St Fergus, Barrow, Theddlethorpe and Bacton, it is unlikely that there will be any material increased risk of buyback and also hard to see any shipper at these other ASEPs being disadvantaged given the significant capacity headroom that exists at all of them.

Yours sincerely

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Cc: Martin Watson, NGG (by e-mail)