



David Linden

European Regulatory Affairs
Gas Trading Europe and LNG

BP Gas Marketing Ltd
20 Canada Square
Canary Wharf
London
E14 5NJ
United Kingdom

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Bogdan Kowalewicz
Senior Manager
Gas Transmission Policy
Ofgem
9 Millbank
London
SW1P 3GE

Direct: +44 (0)20 7948 3200
Main: +44 (0)20 7948 4000
Mobile: +44 (0)78 2689 0922
Fax: +44(0)2079487848
David.Linden@bp.com

Dear Bogdan,

Gas Entry Capacity Substitution Methodology Statement: Initial Impact Assessment

BP welcomes the opportunity to comment on the Entry Capacity Substitution Initial Impact Assessment.

As we have stated in our responses throughout the consultation process of the methodology, we agree with the general principals of substitution in enabling National Grid to manage the NTS more effectively. However, BP still feels that the methodology (including the use of a 'retainer') would lead to excessive capacity destruction, thereby remove flexibility from the market, and harming competition and security of supply.

Regarding the impact assessment, what is particularly concerning is that despite the importance of the issues at hand, critical elements of the analysis provided by Ofgem to assess the risks and unintended consequences of substitution lacks depth and conviction. One such example is that Ofgem dismisses the issue of "insufficient spare capacity..., which would limit the flexibility [of the gas transportation system]" on the basis that they have not been provided with any evidence in support of this view. This undermines the impact assessment process, as it should be up to Ofgem to attempt its own analysis – much like it has done for the impact of substitution on entry capacity pricing. Analysis should also be carried out on the potential benefits of flexibility in the system for UK plc, which would be forgone owing to the substitution process. Simply requesting evidence from individual respondents ignores the commercial sensitivity of such data, as well as the recognition of other sources of information, including the aggregated future flows provided by shippers through the annual Transporting Britain's Energy (TBE) process.

Although the Entry Capacity Substitution Methodology has been developed further since the formal consultation back in August of this year, some areas still remain unclear. BP would welcome further insight into what Ofgem has in mind when referring to a 'soft landing'. A number of questions spring to mind: Does the exchange rate cap stay fixed at 3:1? Should it, and other 'soft-landing' measures such as partial substitution be temporary and eventually phased out? What scope does the annual review have in this – a simple, yes or no to check

BP Gas Marketing Ltd
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Registered Office:
Chertsey road
Sunbury on Thames
Middlesex
TW16 7BP

the regime is working, or annual adjustments to the methodology depending on historic analysis? Such opacity and scope for regular change will lead to a very uncertain future investment climate and further risks for shippers. In future the GB capacity regime would benefit from a period of stability.

Please do not hesitate to contact me if you have any questions.

Yours Sincerely,

David Linden
Regulatory Analyst