BG GROUP

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Dear Natasha,

Ofgem's Initial Proposals for Avonmouth LNG Price Review

We welcome the opportunity to respond to this consultation on the regulated C3 price and trust that our views will be reflected in your final decisions.

We note that Ofgem are seeking an 11% reduction in the regulated price that would be charged from Avonmouth, whilst NG LNG are seeking an increase of 133%. This appears to be due to differences in the assumptions around decommissioning, depreciation and the role of commercial services. We agree with Ofgem's view that revenue loss at Avonmouth due to the introduction from 2016 of IoG LNG tankering services is their own commercial choice. We also agree that Avonmouth is likely to continue to be required by the network post 2016, so NG LNG are likely to receive revenues in excess of their business plan for that period.

However, on balance, we believe that that the C3 price should be **maintained at the existing level** for the five year period from May 2013.

We are concerned that a reduction in the C3 price will potentially result in NG LNG receiving revenues from Operating Margins well above the current £5.7m forecast. Avonmouth provides OM at the regulated price, acting as a backstop and a provider of "last resort". We believe that an artificial reduction in the C3 price will reduce the level of OM that is provided by the market. There is therefore a balance between the C3 price being cost reflective and acting in the interests of consumers (Scottish Independent Undertakings in this case) and the wider impacts that this price has on the market, such as the provision of Operating Margins by market participants.

Ideally, we would like to see OM services, both on the supply and demand side being fully provided by the market rather than relying on NG LNG. However, from the proposals document, it is clear that NG LNG and Ofgem both foresee at least £5.7m of revenue being obtained via Avonmouth OM services. It would be interesting to understand from National Grid OM procurement if a small price rise in the C3 price (say 10%) would have permitted them to have sourced all their requirements from the market rather than requiring NG LNG support. Whilst their business unit may not support this approach given their OM allowance, this would give credence to maintaining the existing level for the C3 price. Equally, they can also highlight the impact that a 133% C3 price rise would have on their OM costs.

We trust that this new point is helpful in reaching your final proposals.

Yours sincerely,

Mark Dalton
European Regulation Manager