



27 November 2006

Julian Majdanski
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Dear Julian

**BG Gas Services Limited Response to Code Modification Third Party Proposal 104
Storage Information at LNG Importation Facilities**

BG Gas Services Limited does not support Modification Proposal 104 as it does not meet the relevant objectives.

In addition to the comments below on the Proposal's failure to meet the relevant objectives, the Proposal shows a clear lack of understanding of the legal and regulatory framework concerning storage and LNG import terminals.

The approach of the Proposal is to equate LNG import terminals to storage. This is not reflected in relevant legislation, which differentiates between LNG storage facilities and LNG import terminals.

In UK legislation, Statutory Instrument 2004 No. 2043 the Gas (Third Party Access) Regulation 2004 clearly excludes LNG import terminals from the definition of storage. An LNG import facility is defined (Schedule 2 paragraph 6) as " a facility for the following

- (a) importation of liquid gas
- (b) the regasification of liquid gas following its importation and prior conveyance to a pipeline system operated by a gas transporter
- (c) any temporary storage of liquid gas which is necessary for the operation of a facility."

The definition of a storage facility includes a facility for "the storage of liquid gas" but "does not include such temporary storage as is mentioned in paragraph (c) of the definition of "LNG import facility".

The above clearly demonstrates that LNG import facilities are not the equivalent of storage facilities under the current regulatory framework. Tanks in an LNG terminal simply act as a buffer between the delivery of LNG in batches via tanker and the regasification and subsequent delivery of gas into the pipeline system. This is recognised as being different from storage in the legislation. Therefore any suggestion that LNG import terminals have a role equivalent to storage facilities is simply erroneous. It also raises the question as to the validity of the Modification Proposal.

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For these reasons BG also believes that the reference in the Proposal to the Guidelines for Good Practice for System Storage Operators (GGPSSO) is not relevant. The GGPSSO clearly state (page 1) that “the GGPSSO concern Third party Access (TPA) to storage facilities in accordance with Article 2(9) and 19 of the European Directive 2003/55/EC (the Gas Directive)”. Article 19 paragraph 2 of the Gas Directive states that the requirements for TPA “shall not apply to ancillary services and temporary storage that are related to LNG facilities and are necessary for the re-gasification process and subsequent delivery to the transmission system.” It is therefore clear that the GGPSSO do not apply to LNG import terminals.

A11.1 (a) the efficient and economical operation of the pipe-line system.

Despite requests at the Transmission Workstream the Proposer was unable to demonstrate or explain how this objective would be met, other than the assertion that the provision of the information would enable shippers “to better forecast demand and thus make the appropriate trading decisions.” As the information relates to potential supply in the form of LNG which is yet to be regasified the Proposer’s assertion is clearly illogical, as demand is driven by factors which are different to, and separate from those, which drive supply. Gas consumers will use the price of gas to determine whether or not they will provide demand side response, by weighing up the cost of foregone production against the likely profit of selling gas back into the market, or the foregone cost of gas not consumed. As we note below, the UK gas market is already competitive with good price discovery and access to real time information on supply.

A11.1 (c) the efficient discharge of the licensee’s obligations under its licence

The Proposer asserted that the provision of information would facilitate security of supply by enabling shippers to forecast demand better, “enabling them to make more efficient purchasing decisions, consequently reducing price volatility and facilitating security of supply.” As noted above the Proposer was unable to demonstrate how this would work in practice, and it is unclear how information on potential supply from LNG terminals would help shippers forecast demand. Given that Shippers already have access to near real time flow information from system entry points, including LNG import terminals, it is unclear how the Proposed Modification would improve matters.

During the Transmission Workstream Meeting a National Grid Gas representative confirmed that NGG did not need the information for security of supply reasons.

A11.1 (d) the securing of effective competition (i) between relevant shippers and (ii) between relevant suppliers.

The Proposer suggests that this objective would be met “through providing a level playing field where all shipper / suppliers have the same information available to them, provided through an established, consistent and transparent basis”.

As currently drafted the Proposal would only affect one LNG terminal and is therefore blatantly discriminatory. It runs the serious risk of exposing the commercial positions of shippers in that terminal, thereby severely undermining competition between shippers and suppliers. Furthermore it is not clear how the Proposal would apply to LNG imports that are regasified on board ship, as in the Excelerate project at Teesside, and which therefore do not have LNG stocks in tanks at an import terminal. The Proposal thereby risks also discriminating between different shippers who receive LNG imports by different means.

Furthermore the Proposal does not create a level playing field. By publishing only one item of information, it cannot create a level playing field as it is not proposing a complete solution for information provision where all players on both the supply and demand side have access to equivalent information i.e. demand side players having access to supply side information and supply side players having access to demand side information. In the Transmission Workstream meeting of 2nd November, Energywatch, the Proposer, itself expressed concerns about the “piecemeal” fashion in which Modification Proposals concerning information were raised, noting that this was not a very satisfactory way to proceed.

Lastly it is a fallacy that all players in market need to know each others' information and positions in order for there to be competition between market players. In a competitive market, such as the UK wholesale gas market, it is the interaction of supply and demand via different buyers and sellers which results in prices changes which signal the state of supply-demand balance, and hence help inform participants' trading and purchasing decisions. Since the UK already has information on sub terminal gas flows in a market which balances on a national basis, standard product definition (i.e. the gas is of the same specification), and good price discovery through market reporting and electronic exchanges, it is not clear how the Proposal would add anything to improve competition.

Draft Modification Report Analysis of any advantages or disadvantages of implementation of the Modification Proposal.

BG confirms that it does not accept the advantages quoted in the DMR for the reasons outlined above. We agree with the disadvantages outlined in the report. On the issue of possible discouragement of imports of LNG into the UK, some LNG importers may be concerned that their commercial positions will be exposed as a result of the implementation of the proposal, and this could undermine their willingness to bring LNG into the UK.

I trust that the Modification panel will take account of the views outlined above, and recommend against implementation. Should you have any queries please do not hesitate to contact me.

Yours sincerely,

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