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Mr J. Majdanski
Secretary, Modification Panel
Joint Office
National Grid Gas

24 November 2006

Dear Julian,

RE: 3rd Party Modification Proposal 0104: "Storage Information at LNG Importation Facilities"

Thank you for the opportunity to offer comments on the above modification proposal. British Gas Trading (BGT) is unable to offer support.

Whilst on the face of it 0104 seems to propose a fairly straightforward modification we believe that it raises a number of important issues. Whilst we broadly support moves towards greater market transparency, particularly in a Europe-wide context, in summary we have three broad areas of concern with this proposal. These are that:

- the basis on which the publication of information by NGG rests is flawed, relying as it does on NG being party to such information as a result of some extraneous arrangements with the terminal operator. This in turn gives rise to;
- an uneven playing field between LNG terminal operators, and a perverse incentive for new operators to refuse to contract with National Grid (NG) for the provision of Margin Gas and/or provide the minimum necessary to operate the connection;
- the extent of the benefits purported to result from knowing levels of LNG at Grain are tentative, and in any event LNG levels can already be reasonably modelled from publicly available data.
- as a result of Use it or Lose It arrangements, which effectively prevent LNG storage by requiring regular cycling of the facility, LNG import facilities will become more transparent than other NTS inputs (i.e. interconnectors and gas fields) which are not required to make public their daily nominations.

Our thinking on these points is set out in more detail below.

First, however, we consider the point about the extent to which a LNG importation terminal in general - and Isle of Grain in particular as the focus of this modification proposal - is a gas storage facility. The proposal makes a number of references to storage, not least in the title.

Our view is that the facility in question cannot be considered to be a store of gas, and this view would appear to be supported by legislation highlighted by BG Group. The design and purpose of the facility is to receive LNG and re-gasify for immediate or very short term delivery. Any gas at the site, over and above NTS Margin Gas, remains there as a result of limitations on the speed with which the regasification process can take place. It is therefore not stored, but simply awaiting processing for send out.

To this end, the only gas genuinely stored at the site is the NG Margin Gas. We consider that publication of that data is a far more straightforward and less contentious matter, but understand that this is not the thinking behind this proposal.

"Storage" of gas at the site is also effectively prevented by the terms of the current Use It Or Lose It arrangements in place. Margin Gas aside, these effectively may prevent LNG from being held at the site for longer than it might reasonably take to regasify and release.

Turning now to the impacts of the proposal, the suggestion put forward is that the greater transparency brought about by this proposal is a very important factor in informing better purchasing decisions, facilitating improvements in security of supply, and ultimately reducing costs to end consumers. Whilst we can understand the theory behind this general view on information provision to the market, we believe that this is only likely to be the case where the facility in question is operating in accordance with market expectations. In such circumstances, we believe that this greater transparency may bring a marginal benefit to informing energy purchasing decisions.

However, in an environment where this information is available and the facility is not operating as expected, we believe that greater scope will exist for market players to capitalise on these times of perceived stress, driving commodity prices higher.

A reasonable view of LNG inventory can be modelled from information currently available. We refer in particular to the availability of near real time flow data, and information reported about the movement, arrival and size of LNG shipping vessels. What is not known, of course, is the amount of gas offloaded from a LNG vessel into the site, requiring a running assumption that any vessel is full on arrival, and empty on departure.

The availability of data from 0104 would validate these assumptions, however, we believe that, at best, market participants are likely to consider this additional certainty as being desirable, rather than essential.

We have also considered the wider implications of this proposal. During the development phase of 0104, we noted in particular comments from parties involved with LNG importation projects. Our understanding is that, overwhelmingly, such parties were strongly opposed to this proposal, believing that it would undermine their commercial positions.

We believe that the commercial positions of LNG operators could be unduly harmed should market players be in a position to identify, and exploit, times of distressed selling or buying by LNG site operators. We are very concerned that the net result will be to make the business of LNG importation less attractive as a commercial enterprise.

LNG is set to make up a significant proportion of Britain's gas requirements into the future, and this gap can only be filled by commercial businesses that rely upon an acceptable return. We therefore believe that there are very serious implications from any move that potentially tips the balance to such an extent that future LNG investment is commercially unattractive.

We do not necessarily believe that this proposal will tip the balance to that extent, but it must be considered alongside all of the other factors that might affect a LNG investment decision, and the resulting impact on GB security of supply.

It does appear that the Grain LNG terminal is only caught by this proposal by virtue of having a contract with National Grid NTS for the provision of Margin Gas. As a result of that contract, NG NTS receives information about stock levels which, post this modification, it will be required to release publicly. In the absence of a bilateral contract for the holding of Margin Gas, the information would not be available to NG NTS, and therefore could not be made available by NG NTS to the wider market.

Further, we believe that an undesirable incentive is created for LNG terminal operators who wish to retain greater commercial confidentiality; a refusal to contract with NG NTS for Margin Gas, or indeed any other arrangements, that could result in NG obtaining information that it would then be required to publish. Such a situation could have a negative effect upon security of supply, and could potentially push Margin Gas prices higher by limiting the field of competition for Margin Gas provision.

We therefore believe that application of the criteria set out in the modification will lead to inconsistent information provision across LNG terminals. We note concerns previously expressed by Ofgem to ensure a consistent approach to information provision, for example the decision not to implement modification Proposal 108, and we believe that this is also a key consideration under this proposal.

There is a further consideration about the correct level of information within the market, and the extent to which the interests of the GB market might be harmed by moving towards greater transparency significantly ahead of markets in other European countries. In this respect, this proposal is one of a number that push for greater GB transparency.

We are unable to provide any robust analysis to demonstrate the existence or extent of any harm but believe that this potential, and the non-reciprocity in neighbouring markets, should not be overlooked by Ofgem when deciding upon implementation of this, and indeed other, market transparency related modifications.

In summary, given the current ability of market participants to reasonably model LNG stock levels at Grain, any benefits accruing from this proposal are likely to be limited. This will translate into an extremely marginal furthering of the relevant objectives, most notably competition between relevant shippers.

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However, this will be at the expense of creating an uneven playing field amongst LNG terminals. LNG import terminal can effectively choose whether or not to have their inventories published, by choosing whether or not to enter into a Margin Gas contract with NG (or indeed any other arrangement that result in NG gaining stock level or other information and hence being forced to publish it).

We believe that the detriment from any perverse incentive on LNG terminals to avoid contracting with NG for Margin Gas storage will outweigh any benefits outlined above.

Please don't hesitate to contact me if you have any queries about this response.

Yours sincerely

Chris Wright
Contracts Manager