



12th January 2007

Mr. Julian Majdanski
Joint Office of Gas Transporters
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Re: Urgent Modification Proposal 0129: Delay to the 2007 AMSEC Auction

Dear Mr Majdanski,

Excelerate Energy does not support the implementation of Modification Proposal 0129.

We made our detailed arguments in response to 0128 and hence do not believe that they need to be repeated, though we would appreciate it if you would consider those arguments in your Mod Report.

In summary, our key points are:

- It was reasonable for Excelerate to believe that capacity up to the existing baseline level of 70 MCMD would be for sale in the Feb 2007 AMSEC auctions;
- No evidence has been presented to support the claim that a reduction in Teesside baseline to 33 MCMD is necessary to avoid National Grid being exposed to significant buy-back costs; and,
- That Excelerate has had no opportunity to buy capacity for winter 07/08 since it launched its project in May 2006, responding to UK market signals.

Separate from, but linked to this modification, we are concerned as to the process followed by Ofgem to arrive at the new baseline for Teesside as the new baseline is set a level below the current peak physical flow. Additionally, the process does not seem to have included volumes from Excelerate's new GasPort project.

As far as NTS capacity is concerned, under all foreseeable scenarios, our understanding is that 1 MCMD of St Fergus gas flow has the same impact as 1 MCMD of Teesside flow. In relation to constraints on the NTS which would incur buy-back costs, these must be south of Bishop Auckland for reduction in Teesside flow to have any impact. To alleviate such constraints, Ofgem has reduced the St Fergus + Teesside total by 38.2 MCMD. However, 78% of the reduction has come from Teesside. We believe this to be arbitrary, with no evidence provided as to why 78% Teesside. If the 38.2 MCMD reduction had been applied 50-50, then the new Teesside baseline would have been 43.8 MCMD which would have been closer to the capacity required at Teesside.

The UKCS is clearly in a steep decline and flows at St Fergus have fallen significantly from the peak in 2004/05 and the National Grid 2006 Ten Year Statement forecasts that flows in 2007/8 will be lower than forecast for 2006/07. The following table shows the peak flows on any day in the last 5 years including the current one (to date):

	St Fergus	Teesside	Total	Peak Flow Compared To Baseline
2002/03	140	40	180	-44
2003/04	139	40	179	-45
2004/05	145	37	182	-42
2005/06	131	34	165	-59
2006/07	117	35	152	-72

It can be argued that as St Fergus declines and National Grid makes significant investment elsewhere, capacity will be widely available and, in practice, 'interruptible' capacity will be as good as firm at Teesside and St Fergus as a result. This may well be the case for Teesside during winters 07/08 and 08/09, the ones in which capacity is due to be made available in the February 2007 AMSEC auctions.

However, it is the fact that Ofgem made such a baseline reduction at Teesside, based on evidence presented by National Grid that we have not seen, that causes us concerns. Specifically, are there constraints arising in 2007/08 as a result of unintended consequences of the National Grid investment programme for Easington? We do not know as no information has been provided to allow us to understand why there is now a St Fergus/Teesside constraint that did not appear to exist in 2004/05 when flows were around 20% higher than they are now. This lack of transparency and predictability is damaging to the functioning of the UK gas market.

In addition, we are concerned that, as a result of UNC section B2.5, the amount of interruptible capacity available at Teesside will be limited. Our understanding from the UNC is that if Teesside flows average 33 MCMD - the baseline level - then there would be no availability of interruptible capacity at Teesside to attract the additional volumes of gas into the NTS. Hence, in addition to having a reduced baseline we are quite likely to have a situation where no interruptible capacity may be available at Teesside. As with this entire modification, this outcome does not seem either equitable or in the interests of running an economic and efficient system. *As a transition measure, if either Mod 0128 or 0129 is passed, we believe this restriction on interruptible capacity sold in winters 07/08 and 08/09 should be lifted.*

As we said in our response to Mod 0128, it is disappointing that the proposed capacity reduction has come at us via an urgent modification which has not allowed time for alternative proposals or compromises. As such, we hope that Mod 0129 is *not supported*.

Yours faithfully,



Rob Bryngelson,
Executive Vice President and Chief Operating Officer