



25th May 2007

Julian Majdanski
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Dear Julian

BG Gas Services Limited Response to Code Modification Proposal 151 " Transfer of Sold Capacity between ASEPs."

BG Gas Services Limited ("BG") has serious reservations about this Modification Proposal. The success of the initiative is wholly dependent on the exchange rates ("Transfer Rates") used for the transfer of capacity. BG has serious concerns as to how these will be calculated, and therefore the quantity of capacity that will be transferred in practice. BG is unable to support the Proposal because of these concerns.

National Grid ("NG") states that the Transfer Rates will be determined in accordance with the Entry Capacity Transfer and Trade Methodology Statement, a draft of which is currently out for consultation. A key component is the Risk Assessment Model which aims to forecast the buyback risk that NG might incur by transferring capacity between ASEPs. NG states that, "The most significant constraint on capacity exchange rate is the requirement for National Grid to avoid increases in the costs that can reasonably expected to be incurred as a result of capacity being reassigned. This includes, but is not limited to, capacity buyback costs." (*The Entry Capacity Transfer and Trade Methodology Statement* Paragraph 19). NG uses the Risk Assessment Model to compare the expected level of risk with that which it already faces, to see what Transfer rate would ensure that NG did not face any additional costs.

The Risk Assessment Model uses three types of inputs – contractual obligations (i.e. capacity that has been sold), network capability and expected flows. There are two problems with this approach. Firstly the inputs into the Risk Assessment Model are at NG's discretion, and it is not clear whether they are subject to outside scrutiny or audit. As with any model, the inputs will help determine the outputs, in this case the Transfer Rates. Secondly, and more seriously, NG does not take into account its obligations to sell capacity up to baselines but uses scenarios based on expected supply and demand flows of gas. In public presentations NG has stated that it would regard a transfer of capacity from one ASEP to another as creating in more risk unless it resulted in a reduction in flows at the donor terminal. Essentially this means that NG is basing its assessment of risk on it what it thinks the flows of gas will be, not on the level of capacity it is obliged to sell under the baselines.

BG believes that NG's Methodology will not result in the trade of any capacity between terminals since shippers are unlikely to curtail flows of gas in order to trade capacity to another terminal. Recent events, such as the major reductions in baselines, and the proposal for capacity transfer and trade, has shown that only capacity which is booked in advance has

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any degree of certainty attached to it. It is not clear why shippers would want to cease the flow of gas into one terminal in order to be able to flow gas in at another terminal. However this is exactly the type of capacity that NG expects will increase their risk and hence will not wish to transfer. On this basis BG does not believe the Modification Proposal will meet the Relevant Objectives as laid out by the Proposer because little or no capacity will be traded.

BG therefore cannot support the Modification Proposal on the basis of National Grid's statements of how Transfer Rates will be calculated. BG believes that the benchmarks which NG should use for its assessment of risk should include the capacity baselines, as these are the basis for NG's outputs in the Price Control. Whilst BG appreciates the efforts that NG has undertaken in developing their proposals, it is unfortunate that the industry is facing reduced levels of capacity due to the reduction in baselines, without any meaningful Transfer and Trade mechanism. The reduction in baselines, coupled with NG's proposed Entry Capacity Transfer and Trade Methodology, means that NG is facing less risk whilst shippers are facing greater uncertainty about the costs of bringing gas to the UK.

Yours sincerely,

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