



7 September 2007

Julian Majdanski  
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Dear Julian

**BG Gas Services Limited Response to Code Modification Proposals 170 " User Admission requirements for Applicant Shippers who wish solely to participate in Long Term Entry Capacity Auctions"**

BG Gas Services Limited ("BG") opposes the above Modification Proposal on the grounds that it does not facilitate the relevant objectives of the efficient and economic operation of the pipeline system, and not being consistent with securing effective competition between shippers.

**Securing effective competition between shippers.**

It was not clear from the discussions at the Transmission Workstream on 6<sup>th</sup> September why the party who would benefit from this proposal had been unable to become a User in time for the QSEC auctions. The lead time for becoming a fully fledged User is 4 months, and the process has been in place for some time. The timetable for UK entry capacity auctions is well known, even allowing for the recent uncertainty due to changes in the regime. However the next proposed QSECs are taking place at the same time of year as they have in previous years. BG does not therefore consider that a 4 month lead time is a barrier to entry. It is incumbent on potential Users to understand the rules of the market which they are hoping to join.

It is also not clear why the relevant party does not contract with an existing shipper to participate in the auctions on its behalf. The party could then buy the capacity from that shipper once it becomes a fully fledged User. This would be a much simpler solution than changing the whole UNC as it would involve a bilateral agreement between two parties who could then negotiate the sharing of risk between themselves. By contrast the Proposal would transfer all the risk to the other UNC signatories if, for whatever reason, the Applicant User did not become a fully fledged User. Such an approach is disproportionate and amounts to providing the Applicant User with a "free option" to participate in the QSEC auctions but not bear any of the consequences if it subsequently decides not accede to the Code. All the Proposal includes is a requirement to indicate agreement to be bound by the Code upon accession. It says nothing about what would happen if the Applicant did not accede.

The argument that there are potential customers for entry capacity who do not want to ship gas is irrelevant. It is obvious that potential gas supply projects need to secure entry capacity. How they do this should be a matter to agree between the project sponsors. Other projects

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have managed to secure entry capacity by agreeing the approach with their customers. Such projects have included new Users who were not previously shippers on the UK system.

Furthermore implementation of this Proposal would undermine the principle of non-discriminatory third party access to the pipeline system, as it would create two classes of Users. One class, Applicant Users, would be able to secure capacity rights but would not be bound by any of the other rules governing network access. The other class, existing Users, would be bound by the rules and would bear the risks in case of default by the Applicant User. By creating a two class approach, it begs the question why the UK Gas industry has a standard network code.

### **The efficient and economic operation of the pipeline system.**

It is not clear why this Proposal is required for new gas to be admitted to the system under Firm Capacity arrangements. BG has stated that there are potential issues with proposals on Substitution preventing new gas from entering the system (BG Gas Services Limited Comments on Proposals for the Treatment of "Spare / Sterilised" Capacity 31<sup>st</sup> August 2007) but Proposal 170 does not address these issues. As noted above the affected party could contract with another shipper to buy entry capacity on its behalf or it could have ensured that it understood the procedures for becoming a User in order to be able to participate in time.

Instead the Proposal will undermine the efficient and economic operation of the pipeline system for the following reasons. Firstly it undermines the risk sharing arrangements in the Code for the reasons explained above. By altering the obligations of the Code for different parties the Proposal will make it harder for NG to manage the system. Secondly it is not clear how useful any signals from the QSEC auction will be since there is no guarantee that the Applicant will honour its commitments. Thirdly the late appearance of this Proposal, only days before the QSEC auctions are due to start, unnecessarily increases the burdens on NG in administering the auctions.

For the above reasons BG does not support the Proposal and urges the Modification Panel and Ofgem to take the same view.

Yours sincerely,

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