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Our Ref.
Your Ref.

6 January 2009

Dear John,

RE: Modification Proposal 0237 "Disposal of Dynevor Arms LNG Storage Facility"

Thank you for the opportunity to comment on this proposal. British Gas has no pressing objection to this proposal but does not believe that there is an especially strong case to be put forward for the better achievement of the relevant objectives.

In assessing our position on this proposal, we recognise that we are almost entirely dependent upon the information provided by National Grid in its role as system operator. That information suggests that, for the foreseeable future, there will be no requirement for operating margins gas in Wales. On this basis, there would seem to be no reason to retain any references to Dynevor Arms, or references to positive storage volumes being required at Dynevor Arms, in the UNC.

We have sought clarification from National Grid as to the liability for paying for a new facility in Wales should there be a future requirement for an operating margins/constrained LNG facility in that area of the country. Clearly, we would not want to be in a position whereby National Grid benefits from the sale of this facility, but with Users having to pick up the cost of developing a new facility should one be required in future. Whilst we still do not fully understand the position in that respect, we have received reassurances that there will be no future requirement in that area, and therefore that situation will not arise.

We consider the proposer's claim that this proposal will facilitate the securing of effective competition, by expanding the range of storage services available to Shippers, to be somewhat speculative. First, it is our understanding that National Grid already offers commercial storage services from Dynevor Arms; therefore this proposal is not necessary for this to occur. Second, better achievement of this relevant objective is dependent upon the sale of Dynevor Arms to a buyer who will continue to offer commercial storage services. Amending the UNC in order to facilitate the sale of the facility does not

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necessarily mean that commercial gas storage services will continue to be offered in future (unless National Grid has a buyer already lined up, and that buyer has confirmed its intention to continue to offer commercial storage services). We would therefore not consider that this is a robust basis for assessing this proposal against this relevant objective.

To the extent that the revenues from any sale of Dynevor Arms come under the regulated accounts, we would agree with the proposer that this proposal better facilitates the efficient discharge of the licensee's obligations under this licence by establishing the market price of the facility. However, where the proceeds from any sale falls outside of the ringfenced regulated business, we would again query the extent to which this proposal should be judged against this relevant objective.

Should you have any queries with regard to this response please do not hesitate to contact me.

Yours sincerely,

Chris Wright
Commercial Manager