



30th May 2007

Andrew Fox
NG House
Warwick Technology Park
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Dear Mr. Fox

BG Gas Services Limited Response to Consultation on "The Entry Capacity Transfer and Trade Methodology Statement"

BG Gas Services Limited ("BG") welcomes the opportunity to comment on National Grid's ("NG") proposal. The draft statement is a clear exposition of the factors that NG proposes to take into account when calculating Transfer Rates. However we have some concerns which are outlined below.

BG agrees with the approach of using the Risk Assessment Model to forecast buyback risk. However, as with any model, the outputs will be determined by the inputs and underlying assumptions of the model. BG is not aware of any independent scrutiny of the model or its inputs, for example network capability, to ensure that they are reasonable. NG has highlighted the importance it attaches to buyback risk, and ceteris paribus the way to minimise buyback risk is to minimise sales, trades or transfers of capacity. There could be a temptation for NG to tailor the inputs and model to achieve such a result. Unlike entry capacity auctions, where the amount of capacity that NG has to release is agreed with Ofgem as part of the Licence, there is no similar safeguard in the methodology to ensure that NG releases the maximum reasonable capacity, not the minimum NG deems reasonable. Whilst BG is aware of NG's broad Licence Conditions (for example to operate in an economic and efficient manner) BG does not see how this can be meaningfully enforced without a degree of regulatory scrutiny.

Of greater concern, however, is the way in which NG appears to base its view of buyback risk on expected flows and capacity that it has sold. 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 transfer of any capacity between terminals since shippers are unlikely to curtail flows of gas in order to transfer 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 any degree of certainty attached to it. This means that the only unsold capacity at ASEPs will

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be that against which shippers do not expect to flow gas. However this is exactly the type of capacity that NG expects will increase their risk and hence will not wish to transfer.

Therefore BG does not support the Statement as currently drafted, and believes that the Risk Assessment Model should include Capacity Baselines as a benchmark for determining the likely change in buyback risk in order to calculate the Transfer Rates.

Yours sincerely,

Alex Barnes
Commercial and Regulation Manager
Europe Downstream