



15 June 2007

Jan Gascoigne
NG House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

Dear Jan

BG Gas Services Limited Response to Consultation on "The Entry Capacity Substitution 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 principles and methodology that NG proposes to use. However BG has some concerns about the substitution of capacity between ASEPs making it more difficult for small and incremental sources of gas to enter the UK market.

BG agrees with the concern highlighted by NG that the proposal could lead to a large amount of capacity being taken away from a donor ASEP to provide a relatively small amount of capacity at the recipient ASEP. BG is concerned that the situation could arise where, in future years, capacity is required at the donor ASEP for relatively short periods of time, but which would no longer be available. Furthermore to trigger new capacity shippers might have to pay more for the capacity than either they would have done had the capacity remained at the donor ASEP or than shippers were paying for the capacity at the recipient ASEP. This does not seem particularly efficient.

Furthermore, as the UKCS declines, new gas fields tend to be small, have shorter life-spans and have marginal economics. Their viability is often dependent on there already being capacity available in offshore infrastructure, as a result of the decline of older fields. This enables existing offshore infrastructure to be utilised more and for longer, which is a more efficient outcome than building new import infrastructure. However the substitution proposals would mean that such fields could not count on there being equivalent entry capacity available on the NTS because it may have been substituted to an alternative terminal. Because capacity at the donor terminal will now have been sold out, a shipper will need to book sufficient long term capacity (32 quarters) to trigger new investment if he requires capacity at any time in the future at the donor terminal. This is less likely for small and short lifespan fields. The proposal therefore increases the risk of stranding UK gas supplies.

Therefore the proposals may look efficient from a purely NTS entry capacity point of view, as they maximise utilisation of NTS capacity in the shorter term by allowing capacity to be moved between terminals. However, by potentially stranding UK gas fields, they could raise costs to consumers if this means the UK becomes more reliant on imported gas more quickly than would otherwise be the case. Going forward the projects more likely to be able to make long term commitments sufficient to trigger new investment are those related to import infrastructure. The combination of the proposed substitution methodology and the IECR

BG Gas Services Limited
Thames Valley Park
Reading Berkshire
RG6 1PT UK
www.bg-group.com
Tel 0118 929 3442
Fax 0118 929 3273
alex.barnes@bg-group.com

could result in the "terms of trade" being biased in favour of import projects rather than maximising recovery from the UKCS.

BG hopes that NG and Ofgem take the above issues into account when considering the impact of the methodology on UK consumers. For the above reasons BG believes there should be limits on the substitution of capacity between ASEPS, perhaps to an exchange rate of 1:1. However BG would like to see further consideration of these issues prior to implementation. Overall BG is of the view that a slight excess of capacity is better to enable gas to flow into the UK, rather than a slight deficit because of the disproportionate effect the latter can have on gas prices on the day.

Yours sincerely,

Alex Barnes
Commercial and Regulation Manager
Europe Downstream