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Dear Andrew,

**Response to National Grid Letter dated 7 July 2008 regarding the Discussion on
“The Entry Capacity Substitution Methodology Statement”**

Whilst recognising that entry capacity substitution is a requirement of National Grid Gas plc's (“National Grid”) Transporter Licence, Interconnector (UK) Limited (“IUK”) has concerns regarding National Grid's proposed methodology.

The methodology, as understood by IUK, could lead to very large quantities of entry capacity being permanently removed from an entry point in order to accommodate a small increase in capacity at another entry point regardless of the distance between the points. The presentation by National Grid to the third Entry Capacity Substitution Workshop on 11 June 2008 gave an example whereby in excess of 90 mscm/d of Bacton and Theddlethorpe entry capacity is destroyed in return for 10 mscm/d of “new” Easington entry capacity.

IUK supports the general principle that new capacity should not be built where it is sensible to utilize existing capacity that has become available nearby through, for example, a decline in production from UKCS fields. However, it is overly simplistic to say that grid users at all entry points, who deliver the flexibility on which the market and therefore the grid depends, should be incentivized to book in advance large quantities of long term entry capacity that they will not need for most of the year. This is particularly the case for bi-directional connection points.

The Interconnector Bacton entry point, which is used by in excess of 30 Shippers, has a history of delivering flexibility to the market for example through providing large swing to the market during the Grangemouth strike and Bacton Shell fire earlier this year. Entry Capacity Substitution as proposed will negatively impact GB's Security of Supply through arbitrary capacity destruction excluding or restricting potential sources of supply when they are most needed by the GB market.

IUK recommends that:

- a restriction is placed on the quantities and distances that can be substituted, for example through a “minimum exchange rate”; and
- as a minimum, any implementation is phased.

Entry Capacity Substitution will have a fundamental impact on the attractiveness of the GB gas market as a destination for non-UK based suppliers. Therefore, it is vital that the methodology employed is carefully constructed taking account of all of the users of entry capacity. It would therefore seem appropriate to conduct a comprehensive impact assessment which considers and quantifies the potential implications across the gas market as a whole in order to inform the methodology that is to be finally adopted.

IUK does not consider this response to be confidential.

Yours sincerely

Darren Reeve
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