



26th February 2008

Mr. Andrew Fox,
National Grid
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Cc Robert Hull
Director, Transmission
Ofgem,
Robert.hull@ofgem.gov.uk

Re: Summary Report and Discussion Document on Entry Capacity Substitution

Dear Mr Fox,

Excelerate Energy appreciates the opportunity to comment on the above consultation.

We believe that National Grid has issued a useful document that identifies key issues in relation to substitution of capacity. It is a highly complex subject, having interactions with baseline levels, transfer and trade and entry capacity pricing.

As a matter of principle, we accept that the substitution of capacity from an entry point that no longer requires it, to an entry point that does, can represent an efficient outcome for shippers and consumers. However, we have concerns that arise in relation to three matters:

1. The issue of substitution is inextricably linked to the level of entry point baseline capacity, which is in turn directly linked with an efficient and competitive gas market capable of functioning on a world scale. We have seen this winter higher prices in the UK because of LNG being diverted to the Far East. Against that backdrop, it is crucial that NTS entry capacity is provided to allow flexible supplies of LNG, like those at Teesside GasPort, to be attracted to the UK without a disproportionate entry capacity burden or risk. Ofgem Factsheet 66 published in January 2008 indicates that gas transmission represents only 2% of an average domestic gas bill. We believe that capacity risk (both in relation to risk of it not being available and complex rules and regulations which can render a market unattractive) represent a significant factor that acts to the financial



detriment of UK consumers. As such, we believe that it would be helpful for Ofgem to consider NTS capacity risk as a factor in its review of the UK gas market announced last week.

2. We are not clear as to whether National Grid, as a matter of course, already carries out de facto substitution between ASEPS, which means that the baseline obligation no longer has an associated 'physical' capacity. It appears, for example, that very little investment is being made to accommodate around 40 MCMD of Aldbrough entry capacity and an additional 32 MCMD of Easington entry capacity from Oct 2009. However, National Grid signalled an investment of £155 - £220M to increase the Teesside baseline by 11 MCMD in moving to Option 1A, based on 'specific projects using network modelling' (see extract from Ofgem December Consultation on Baselines below). It would be helpful if National Grid could reconcile this.

Table 1 NGG view on additional capex requirements

	Option 1	Option 1a	Option 2	Option 2a
Estimated capex costs based on TPCR revenue drivers	No change (part of TPCR settlement)	£68m	£243m	£297m
Estimated capex costs based on specific projects using network modelling	No change (part of TPCR settlement)	£155m-£220m	£181m - £242m	£219m - £285m
NGG's view on most likely actual capex costs	No change (part of TPCR settlement)	£68m	£181m	£219m

3. At a high level, we do not believe that the UK should have any material gas entry capacity risk. This is due to the investment made since 1996 to increase NTS capacity, in addition to the shift in delivery of natural gas supplies from the North (remote from consumers) to the South (close to markets). Also, National Grid has not made the case that there are physical constraints based on reasonable assessments of flows rather than theoretical ones. It would be helpful to understand the physical constraints, were they are located and how may they cause difficulties in practice.

In addition, as we stated in our response to the Ofgem baseline reconsultation (issued in December 2007), we believe that any ASEP which has a lower baseline allocation than that set by Transco in its 2002-7 price control should be exempt from Substitution for at least the remainder of this TPCR.

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As suggested at the last Transmission Workstream, it would be appropriate to have a Workshop in March to discuss Substitution. At such a workshop, Ofgem could provide a response to point 1, and National Grid to points 2 and 3 above.

Yours faithfully,

A handwritten signature in black ink that reads "Rob Bryngelson".

Rob Bryngelson,
Chief Executive Officer