

Mr. Andrew Fox,
Transmission Commercial,
National Grid Gas,
Warwick,
CV34 6DA.

By e-mail,
26th February 2008.

Dear Andrew,

NTS Entry Capacity Substitution – Discussion Document dated 1st February 2008

Thank you for the opportunity to comment on your proposals for the substitution of entry capacity to the NTS at one terminal by that at another. This is clearly a most detailed matter and, rather than exploring such details which others are better placed to do, we would like to confine our comments to two high level, but no less important points.

In our response at the end of January 2008 to Ofgem's consultation 299/07 about its review of entry capacity baselines, we wrote:

“Furthermore, these changes to entry capacity baselines, the new trade and transfer arrangements and the proposals for substitution are all being introduced in quick succession. It will, therefore, be very difficult to determine which of these mechanisms works properly. We strongly recommend that Ofgem reconsiders the timetable for introducing substitution. In any event, it should only be introduced in a controlled and measured manner, a point we have made before, otherwise it and its twin, transfer and trade, may well result in the degradation of entry capacity instead of the desired opposite. If a delay in introducing substitution were to result in a windfall gain for NGG, this should be shared among market participants. In addition, it would be prudent, for the time being, to continue to hold back a 20% margin from the long term auctions of entry capacity.”

We continued with our second point:

“There are substantial concerns within Oil & Gas UK about these potential effects and the consequences they may have for the recovery of the remaining undeveloped reserves of gas (and oil, where the two co-exist) from the UK continental shelf:

- i) there are about 140 bcm of gas, excluding so-called “yet to find” reserves, West of Shetland, but there is currently no pipeline to deliver this gas to St Fergus; however, a collective solution is being examined by an industry task force in conjunction with BERR;
- ii) in the southern North Sea, there are about 100 bcm of gas (also excluding “yet to find” reserves) which are likely to be landed at Bacton, Theddlethorpe, Easington and perhaps Tees-side.

It would be a strategic error to allow, for example, capacity at St Fergus to be substituted in favour of other terminals, without potential development plans for West of Shetland gas being properly considered and allowed for. We suggest that BERR should also be involved in this, given the wider implications.”

We remain very concerned about the speed with which these various changes – review and potential implementation of new baselines, transfer and trade, and substitution – are being introduced. We are also profoundly concerned about the possible consequences for the recovery of the remaining undeveloped reserves of gas (and oil) from the UK's continental shelf, as quoted above.

In addition, we are not convinced that the transfer and trade arrangements will alleviate various participants' concerns about substitution. There may be complementary elements to them, but they are substantially different, most notably the short term flexibility which transfer and trade is intended to provide versus the near-permanent nature of substitution.

We are bound to ask whether all of these matters are being properly considered and factored into NGG's plans. They have implications for the continued security of gas supplies, the future development of offshore fields and the government's long established policy of recovering as much oil and gas from the UK's continental shelf as is economically possible.

It seems to us that there is a significant risk that these matters are not being so considered. Indeed, we have yet to see any evidence that they are, hence our concerns. Therefore, we would like to draw them to your attention before it is too late.

If you would like to discuss any of the above, please do not hesitate to contact us.

Yours sincerely,

A handwritten signature in black ink that reads "David." with a horizontal line underneath.

David Odling,
Gas & Commercial Issues Manager.

Cc: Simon Toole, EDU, BERR
Steve Smith, Ofgem