



8<sup>th</sup> February 2008

Andrew Fox  
NG House  
Warwick Technology Park  
Gallows Hill  
Warwick  
CV34 6DA

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. Many of these are similar to those we expressed in our response to the previous consultation on the Trade and Transfer Methodology statement last year.

It is to be welcomed that NG's Methodology Statement is more detailed than the previous version, and that NG has explained in more detail how it will determine exchange rates by analysing demand and supply scenarios. The Statement is an improvement on the previous version.

However the following areas of concern remain:

- Throughout the document it refers to the fact that Transfer & Trade should not result in "a material increase in costs". However this term is not defined and therefore leaves NG considerable discretion as to how much capacity it will transfer. Furthermore it does not take into account other elements of costs, namely the impact on wholesale gas prices of insufficient entry capacity. Currently there is no mechanism for regulatory scrutiny of NG's assumptions regarding "materiality" of costs and therefore no way of ensuring that NG has released the maximum amount of capacity possible.
- Although NG has laid out a reasonable procedure for determining demand levels based on highest and lowest demand levels over the previous 5 years, there is still an element of discretion available to NG when determining what demand levels NG will use. BG recognises that this is inevitable, given the nature of the system, changing demand patterns and so forth; nonetheless it is a weakness of the regulatory framework that there is no regulatory scrutiny mechanism to check if NG is being reasonable in its approach.
- NG has similar discretion when it comes to supply scenarios as these are based on a "reasonable assessment of a credible "difficult" supply situation." Again the concern is not that NG should have exchange rates or the scenarios used to determine them pre-defined as this would not be practical in a dynamic and evolving system such as the NTS. Rather it is that there is no means of checking if NG has indeed been "reasonable" in its approach.

**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

- It is not clear what is meant by "other constraint costs" which are not buyback costs, as a reason to reject Transfers & Trades. These should be more clearly explained.

The key problem with the "new" entry capacity regime consisting of lower baselines, transfer & trade, and substitution is that it requires closer monitoring of NG to ensure that the maximum amount of capacity is being released to the market, to facilitate gas flows to the market. Without such monitoring there is a real risk that, by taking a conservative approach, the capacity that NG makes available is less than it could be.

I hope the above is helpful. Should you have any queries please contact me at the address above.

Yours sincerely,

**Alex Barnes**  
**Commercial and Regulation Manager**  
**Europe Downstream**