Received via e-mail.

Dear Andrew,

BG Gas Services (BG) welcome the opportunity to comment on the consultation for Entry Capacity substitution which closes out on 10th September 2010.

We note that the methodology was successfully applied earlier in the year with a retainer put in place at Theddlethorpe and capacity substitution from Teesside for incremental capacity requirements at Barrow from 2015. As previously stated, BG accept the efficient application of a substitution methodology where future usage of capacity at a particular terminal is unlikely to be required, but remain very concerned about the process where capacity is being transferred from a terminal that could reasonably be required in future years. Given the prominence of security of supply, we would note that following the substitution, the baseline capacity at Teesside is now below the nameplate capacity of CATS (Central Area Transmission System), let alone the import capability provided by RWE's Teesport LNG regas capability.

With this in mind, we would offer the following observations:

<u>Relationship between Incremental project costs and Revenue Drivers</u>

NGG list indicative project costs for incremental capacity volumes within the QSEC documentation (Appendix 3, Annual Invitiation to Participate letter dated 15/2/2010).

From the data provided, it would appear that 30GWh/d incremental Barrow capacity would cost around £100k yet the justification given by Ofgem for substituting the capacity, was that National Grid would earn over £6m in a five year period from the incremental investment at Barrow. I understand that the Revenue Driver is set within your Licence, but I do not understand how project costs and allowed returns have become so detached and would welcome your explanation on this.

<u>Subsequent Incremental investments at a Transferor terminal</u>

Furthermore, we believe that the Substitution methodology should add an explanation where incremental capacity signals then occur at the transferor terminal. So using the Project costs in the quoted table, Barrow for 30GWh/d would be circa £110k, yet the same capacity at Teesside would indicatively cost £10.2m. If, in next year's auction NGG received an incremental signal for 30GWh/d at Teesside (ie over an above the existing baseline), how would NGG treat the investment and what would happen to their allowed revenues? We would argue that in this example, that NGG should really undertake the investment at the most efficient location (in this example Barrow) and be rewarded with the corresponding Revenue Driver. I suspect the reality would be different under the existing IECR, so we would welcome NGG's explanation on how this would be treated and whether you believe the existing approach is correct or needs to be modified.

Received via e-mail.

With regard to Appendix 1, it would be helpful to include the Baseline and Substitutable Capacities within the table.

We would also suggest that Fleetwood entry point would be better placed within the Northern Triangle rather than North West Corridor, because there is significant unutilised capacity at that entry point and much of the capacity was created for that point by reduction of baseline capacity at Barrow. If you do not agree with this approach, it would be helpful to understand why not.

Notwithstanding all of the above, this consultation has reminded me of the rushed way that substitution was brought in and how the industry was forced down the Retainer route. At the time, the “two stage auction” approach was not ruled out for application in future years and we believe that this should be put back on the table for discussion as soon as possible, as this is likely to provide greater protection to industry investors. Whilst we note National Grid’s reluctance to reconsider this alternative, it isn’t at conflict with the existing methodology and the justification within NGG’s May 2010 document (p9) don’t appear to be valid to re-open the issue. It would seem that this would be best done at the October Transmission Workstream.

I trust that the points above are clear and I look forward to receiving your explanations on the points raised.

Kind regards,

Mark Dalton

Commercial & Regulation Manager

Europe Downstream

0118 929 2092

07747 455 711

BG Energy Holdings Limited
Registered in England & Wales No: 3763515 Registered address:
100 Thames Valley Park Drive
Reading, Berkshire RG6 1PT UK
Telephone: +44 (0)118 935 3222
Website: http://www.BG-Group.com