



9 June 2008

Julian Majdanski  
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Dear Julian

**BG Gas Services Limited Response to Code Modification Proposal 216 and Proposal 216A " Introduction of an Additional Discretionary Release Mechanism for NTS Entry Capacity and Introduction of Additional Pay as Bid Auctions for NTS Entry Capacity"**

BG Gas Services Limited ("BG") supports Proposal 216A.

BG does not support Proposal 216.

Whilst BG welcomes the efforts of both National Grid NTS ("NG") and Eon to develop mechanisms which enable greater release of capacity to shippers, BG believes that Proposal 216 could have adverse consequences for competition between shippers. For this reason BG believes that Proposal 216A better facilitates the relevant objectives.

Proposal 216 gives NG considerable discretion as to the terms and conditions under which additional capacity is released. Combined with the potential short lead times this would give an advantage to any shipper that had been in discussion with NG about the release of any additional capacity. Such a shipper would know that there was the potential for such capacity to be released, and where and for what time period, even if it was not certain until NG made the announcement. Other shippers would have a potentially short time to adjust their expectations of the market. With capacity release so close to the gas day, it could have an impact on the commodity market. It would be preferable that NG, if it did foresee the potential for release of extra capacity, announced such potential to the market as a whole, and then commenced the release mechanism if it received any interest in such additional capacity. Proposal 216A takes an alternative approach whereby a longer notice period, coupled with greater certainty about the terms and conditions for capacity release, makes it more likely that there will be a level playing field between shippers.

NG makes a valid point that Proposal 216A could result in less release of capacity by being more prescriptive about the amount of capacity released. However this simply highlights the problems associated with recent changes to the entry capacity regime. By approving Proposal 216, Ofgem would further reinforce the trend where NG ultimately has control as to how much capacity it releases. As noted in previous responses this plays into the hands of a monopoly which, in the absence of regulation, controls prices and service levels (e.g. capacity release) to suit itself rather than its customers. The aim of the entry capacity regime should be that NG is required to release as much capacity as possible in a way that is useful to its customers. By retaining considerable discretion, NG would not necessarily meet that

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objective. Furthermore it would run the risk of creating a system of quasi bilateral arrangements for short term capacity, rather than a uniform approach.

There also appears to be a conflict between NG's stated desire for longer term user commitments, and its arguments in favour of Proposal 216 to enable LNG cargoes to access the market. It is the reduction in baselines and the potential adverse affects of substitution which have adversely affected the ability of LNG cargoes to access the UK. However NG has justified its approach to the latter by saying it wants long term user commitments. It would be better if these root causes were addressed by ensuring that the capacity regime was not unduly restrictive, rather than create a regime with the disadvantages highlighted above.

I hope the above comments are helpful.

Yours sincerely,

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