

8th May 2009

John Bradley
UNC Panel Secretary
31 Homer Road
Solihull
West Midlands
B91 3LT

Dear Mr Bradley,

Subject: Portland Gas Storage Limited (“PGSL”) Response to UNC Modification Proposal 0246, 0246A and 0246B - Quarterly NTS Entry Capacity User Commitment

PGSL welcomes the opportunity to respond to the UNC Modification Proposals referenced above in relation to the provision of a User Commitment for the QSEC auction process.

There are several aspects of this Modification which we believe are harmful to competition and specifically adversely impact the introduction of new storage projects by independent developers. As a consequence we do not support any of the versions of this Modification for the reasons we set out below. The independent sector has been very important in bringing forward many of the new gas storage projects in recent years at a time when they are critical for UK security of supply.

Whilst we recognise the concerns of certain Shippers on the need to address appropriate credit mechanisms for security and the requirement to prescribe a financially responsible approach to bidding in the QSEC auctions; the requirement to provide potentially large up front credit security to enable a Shipper to bid is an additional hurdle for independent developers.

The option of providing a Parent Company Guarantee is not generally available to smaller independent developers and thus places them in the position of having to deposit cash as security. This may not be a viable option for many companies and would create a significant hurdle for independent developers in the market.

The procurement of firm entry capacity is one of several pre-conditions to securing project finance and hence the provision of credit ahead of the auction and capacity allocation would mean it would be more difficult to reach financial close. PGSL would propose that a process is introduced that allows bidding in the QSEC auction to take place and a period of time to elapse (to secure project finance) before financial security is ultimately provided. If this period was 6-9 months it is unlikely in this time that National Grid would incur any material expenditure if it is required to reinforce the NTS (this would be the case for the Portland project).

The suggestion that security should only be provided for new capacity is also discriminatory in that, for example, shippers who purchased long term entry capacity at Easington (for Rough) in 2007 would not need to provide any credit however Shippers buying capacity for new entry points (such as Mappowder for PGSL) will be required to provide security. This is discriminatory not least if there is insufficient time to implement the Modification prior to the possible September 2009 QSEC which arguably could lead to Shippers buying in advance to avoid the provision of security in future. The application of credit security should be equitably applied to all capacity users.

Given the potential implications for new storage projects in particular we would welcome an Ofgem Impact Assessment to properly review all the implications of this Modification and consider any changes that will facilitate the provision of capacity for new gas storage projects.

Thank you for the opportunity to pass on our concerns, we look forward to the industry, National Grid and Ofgem reaching a solution to these issues that does not introduce significant hurdles to the development of new gas storage projects at this important time when the UK very much needs new storage capacity to be developed to meet the needs of the future.

Yours sincerely,

A handwritten signature in blue ink, appearing to be 'AH', is located below the closing text.

Andrew Hindle
Chief Executive Officer