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Treatment of "Spare/Sterilised"
Capacity

Dear Martin,

ExxonMobil Gas Marketing Europe Limited (EMGME) thanks you for the opportunity of responding to the draft discussion options for the treatment of "spare/sterilised" capacity and we would like to make the following comments;

Summary

We support the work to determine sound and practical substitution, trade and transfer flexibilities for the Transmission Network. Our caution is that the approach to this work must continue to keep in mind the marginal nature of the new services envisaged relative to the base services already in place. It is important that key principles established in 2002 are not undermined. Also, any new arrangements that optimize investment on the network and which increase competition in capacity must be thoroughly tested for potential adverse effects on UK security of supply. It would not surprise us if a compromise were appropriate for instance one which withheld a limited percentage of non substitutable capacity (not necessarily 10%) to enable future small North sea field access that may otherwise not be able to justify long term commitments.

NPV Test

We have concerns about the removal of the NPV test. It is our understanding that it is the signal for investment at a given entry point, supported by bidding which passes the NPV test, which is the trigger for National Grid NTS to investigate whether or not the capacity requirement could be fulfilled by substitution rather than by investment, therefore if the NPV test is removed we do not understand how the substitution process will be triggered. Also, if,

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following such an investigation, it is discovered that the capacity cannot be provided by substitution, how will investment at that entry point be signaled without an NPV test? If a lower NPV test is introduced (as suggested in Options 2&3) does this mean that a two-tiered system would operate, whereby a high test would be applied where investment is needed and a lower test applied where substitution would apply? If so how would shippers know in advance whether or not substitution could be applied and which test they would need to pass in order to guarantee the capacity they require?

Uncertainty In "Spare" Capacity

We also have concerns about "all available capacity being subject to substitution", if the definition of "available" is taken to be all capacity which has not been sold in long term auctions. We believe that there should be a sensible definition of what is 'spare' capacity because we think it is risky to assume that all capacity that is unsold at the present time will never be needed at that entry point at some time in the future. Whilst we believe that shippers who are undertaking large investment projects can and should signal their capacity requirements through long term user commitment, substituting all unsold capacity away from an entry point could jeopardize smaller future developments which would be unable to pass an NPV test for incremental capacity at an entry point where capacity is currently available. This may have the effect of stranding indigenous gas and preventing UK gas producers from developing small fields or maximizing the use of offshore infrastructure. It may therefore be appropriate to increase the 10% of withheld capacity and to exclude this from the substitution process so that smaller projects could be assured of being able to secure entry capacity.

Economy and Efficiency

We support the requirement for the System to be managed in an economic and efficient manner but we think there is a risk that the flexibility for shippers to bring gas into the System from various sources will be lost if capacity investment is too rigidly restricted and there is no 'slack' in the system at all. Therefore a balance must be struck that allows shippers a level of certainty about the capacity available to be booked on a long or short term basis at any given entry point whilst at the same time allowing National Grid NTS to substitute capacity rather than invest in additional pipe when it is appropriate to do so.

Support for Option 4

We think it appropriate to approach substitutability on a measured basis and allow for relevant new market information to emerge.

The capacity substitution proposal in Option 4 seems to offer a workable solution, however shippers bidding to pass the NPV test, whose capacity requirements were subsequently met by capacity substitution may be considered to have paid too much for their capacity and a refund mechanism for the affected shipper(s) might be appropriate to balance revenue recovery to target.

With regard to trades & transfers we also support the proposal offered in Option 4 since we believe that this offers the right mix of flexibility & stability and we think it appropriate to have a limit on exchange rates, otherwise sterilised capacity may result.

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We trust that these comments will be taken into account and if you have any comments please don't hesitate to contact.

Yours sincerely,

Joy Chadwick