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18th September 2007

Dear Mr Watson

12 September 2007 Workstream – Further comments re NGG’s preliminary baseline re-consultation

We refer to the above Workstream meeting and the opportunity offered by National Grid at that meeting for any additional comments to be made ahead of the publication of National Grid’s report on the re-consultation process. We repeat the comments in our letter dated 3rd September 2007 and offer additional comments as follows:

Baselines

The analysis from National Grid indicates that there are a large number of alternative ways of allocating a total aggregate baseline of 8814 Gwh/d.

First, we believe that it is important that any revised baselines take into account the degree of change from previous baseline levels that applied from 2002-2007. It is undesirable to have sudden changes in conditions where users have to adapt from a situation where, in the words of a National Grid representative at the 12th Sept workshop, "it was irrational to buy long term capacity at terminals with a very high baseline" to operating with significantly reduced baselines. This approach will also reduce the general level of regulatory shock which is an important factor in the efficient functioning of competitive markets.

Second, we believe that the use of both the 2005 and 2006 Ten Year Statement in any allocation methodology is inappropriate because neither of these Ten Year Statements took the Excelerate GasPort project into account. As you are aware the Gasport project operates on short term market signals. This “fast to market” approach is very different to the traditional long term planning horizons and methodology used by National Grid.

Third, the new baselines should take into account the primary duty of National Grid to facilitate competition in the supply of gas as indicated by Ofgem in their June Open

Letter. We believe that National Grid must develop its planning methodology to recognize terminals where the gas flow can increase as distinct from those where decline in the UKCS means that there is no prospect of gas flows above a certain level (which may be significantly less than the baseline). Further, the government is in the process of enacting legislation to facilitate innovative, “fast to market” projects and failure to take this into account is likely to stifle investment in the energy sector and act as a disincentive to competition.

Substitution

We have reviewed the comments made by shippers following the August workstreams and the discussion at the 12th September session and do not believe that the implications of substitution are fully understood by market participants. The operation of Substitution is complex and can cause major asset stranding. A full understanding of the implications of Substitution is fundamental to any consultation process. Rather than publish a conclusions report in respect to Substitution, we believe it would be more appropriate for National Grid to produce a briefing document that explains it properly and sets out real worked examples as to how it may operate..

As discussed at the 12th September workshop, we also believe that the market needs to have more understanding about the location of constraints as the 2008/9 and 2009/10 NTS capacity expansion projects (that follow the 2006 long term auctions) are completed. Given the possible introduction of Substitution in June 2007, it is the NTS as it will operate in 2010 that we need to focus on and we, as yet, have little data on the capacity and constraints that will apply at that time.

The facilitation of competition in the supply of the commodity, which is also one of the legislative requirements, should be the key driver given the increasing interconnectivity of the UK with world LNG and gas markets in the next few years.

Yours faithfully,

A handwritten signature in black ink, appearing to read "Rob Bryngelson".

Rob Bryngelson,

President & CEO, Excelerate Energy

CC: Steve Smith & David Gray, Ofgem (By e-mail)