BG GROUP

Modification Panel Secretary
Joint Office of Gas Transporters
Email: enquiries@gasgovernance.co.uk

7 May 2010

Dear Sir

Modifications 284 Removal of the Zero Auction Reserve Price for Within Day Daily NTS Entry Capacity (WDDSEC) and Modification 285 “Use it or Lose it” Interruptible Capacity only to be released when there is at most 10% unsold firm entry capacity

BG Gas Services Ltd (BG) welcome the opportunity to provide comments on these Modifications. Overall we support the implementation of these Modifications and believe that they further the Relevant Objectives, particularly with respect to cost reflective pricing and efficient use of the Network.

We are responding to both Modifications in the same letter because the two issues are closely interlinked and the failure to implement Mod 285 will continue to undermine the sale of firm entry capacity if significant quantities of interruptible capacity continue to be made available when firm capacity is comparatively undersold.

BG participated in the first few sessions of the Entry Charging Review Group and support the removal of the zero auction reserve price for WDDSEC as the first step in the reform of capacity charging. It is inequitable to place more of the burden for revenue recovery on the TO Entry commodity charge than on the primary capacity sale mechanism and the current level of TO and SO commodity charges places the UK at a material disadvantage for attracting incremental supplies into the UK; for example if LNG has the option of going into a UK importation terminal or access into Zeebrugge.

The removal of the zero price discount is likely to lead to some market participants booking capacity ahead of the day for a positive price rather than using capacity for free because of the rules that force National Grid to make the baseline available each day. This will lead to higher recovery under the proper revenue drivers and should reduce TO Commodity charges *ceteris paribus*.

Regarding Mod 285, we believe that this approach is essential to increasing revenue through the TO Capacity charges. The 10% threshold for firm sales is also pragmatic and reflects the QSEC sales approach. We think this route works better than introducing a non-zero reserve price but are not aware of any analysis that aims to quantify the potential outcomes of the two approaches. This may inform if an adjustment to the reserve price is more appropriate, but our initial preference would be to restrict the release of Interruptible capacity until firm entry capacity is sold to 90% of baseline.

Yours faithfully

Mark Dalton
Commercial & Regulation Manager
Europe Downstream