Mrs. Fay Geitona
Secretary General
CEER
Rue le Titien 28
1000 Brussels
Belgium

14 June 2007

Dear Mrs. Geitona

BG International Response to ERGEG Public Consultation on Secondary Markets.

BG International welcomes the opportunity to comment on the above consultation. BG International is part of BG Group ("BG") which is active in gas exploration and production in both the UK and Norwegian sectors of the North Sea. BG supplies approximately 7% of UK gas demand, and is an active participant in the UK wholesale market, and at the Zeebrugge and TTF hubs. BG is also active in the LNG market with shares in various upstream liquefaction plants, as well as equity and capacity in the Dragon LNG terminal currently being built in the UK.

BG broadly agrees with the analysis of the DG COMP Sectoral enquiry, and the ERGEG North West Europe Region report into capacity issues. It is BG's experience that lack of access to firm capacity, whether primary or secondary, is a major issue inhibiting the development of the internal market. To solve these issues the following issues need to be addressed:

- Regulated TSOs should have clear and transparent procedures relating to the sale of new primary capacity. For further details please see BG's response to the ERGEG Consultation on Open Season Guidelines. TSOs should have both the obligation and the right regulatory incentives to invest in new capacity where there is sufficient market demand and where it meets the relevant economic tests. This will in itself lessen the incentive on dominant players to hoard capacity in the long term to deter new entrants, since in the long term new entrants will be able to buy sufficient capacity. However relying on this alone is a second best and costly solution.
- In the short and medium term (i.e. when there is insufficient time to build new capacity), TSOs should have the right regulatory incentives and obligations to maximise the release of unused capacity, both firm and interruptible, as this will maximise their revenues. Partly this can be addressed by sufficient unbundling, the best solution being ownership unbundling, as this will ensure that TSOs are acting in a manner independent of their supply affiliates. For further details on this please see our response to the ERGEG consultation on Functional and Informational Unbundling. Regulators should actively monitor TSOs to ensure they are maximising release of capacity, and set challenging targets for firm capacity release as part of their Price Control Reviews of TSOs. For example TSOs could have legal obligations to release certain quantities of firm capacity, similar to the baselines approach used in National Grid Gas' Price Control in the

BG GROUP
Thames Valley Park
Reading Berkshire
RG6 1PT UK
www.bg-group.com

Tel ++ 44 118 929 3442
Fax ++ 44 118 929 3273
alex.barnes@bg-group.com

UK. Financial incentives, whereby TSOs receive additional revenues for releasing additional capacity above the challenging targets set by regulators, can also play a part. This is consistent with an incentive based approach to regulation. The aim is that TSOs should maximise the throughput of their system in the same way that factories aim to maximise their output given a fixed capital base.

- Proper and effective UIOLI mechanisms need to be in place to further weaken any incentive to hoard capacity. However care needs to be taken that such mechanisms do not undermine primary capacity rights which ultimately underpin investment in new capacity. To do this BG is in favour of an approach whereby firm capacity which is not being used by its primary owner should be released on the market on an interruptible basis. This protects the primary shipper's rights since he can always use the capacity if he needs to do so. However interruptible capacity clearly has less value to shippers because of the risk of interruption. In order to enable shippers to value such capacity it is essential that they have access to sufficient information to gauge the likely risks of the interruption. This means that TSOs should publish full details at each relevant point of the physical capability of that point (both in the past and into the future), the level of capacity booked at that point (both historic and into the future), and the actual flows. The granularity of this information will be determined by the terms of interruption and balancing on the system. For example in a daily balancing system the information needs to be published on a daily basis. For further details on the level of transparency of information please refer to the EFET paper on transparency.
- BG notes that the "rule of three" has often been invoked to justify the failure to publish such information; however both the DG COMP and ERGEG reports have noted that capacity is often in the hands of a limited number of incumbents who seem unwilling to trade unused capacity. By preventing the publication of sufficient information to gauge the riskiness of interruptible capacity, the current regulatory framework increases the likelihood of contractual congestion, as it prevents the UIOLI approach described above from working. It would of course be open to holders of capacity to sell it on a recall basis on the secondary market (i.e. they have the ability to recall the capacity if they need it) but again the purchasing shipper would need sufficient information on flows and likelihood of interruption to value the capacity properly.
- It should be open to regulators and competition authorities to impose penalties (such as the confiscation of unused capacity) if they think shippers are deliberately hoarding capacity. However this should be seen as a "last resort"; if shippers think there is an unduly high risk of having capacity confiscated even if they have not used it for legitimate reasons, then they will not book capacity. This in turn deprives TSOs of the means to underpin their investments and is therefore not conducive to the long term development of the system.
- TSOs should be required to facilitate secondary trading of capacity, and make it as easy and quick as possible for shippers to trade, transfer, sub let or assign capacity amongst themselves. Long lead times (e.g. the average 4 to 5 days quoted) are unacceptable and an unnecessary barrier to trade. For further details on this issue please see the EFET paper on Secondary Capacity.

Should you have any queries please do not hesitate to contact me on ++ 44 118 929 3442 or at alex.barnes@bg-group.com.

Yours sincerely

Alex Barnes

Commercial and Regulation Manager.