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Dear Paul

User Commitment for National Transmission System Quarterly Entry Capacity – Initial Impact Assessment on modification proposals

Thank you for the opportunity to comment on the Initial Impact Assessment (IA) for UNC Modification Proposal 0246 and its variants. BP believes that the IA shows that none of the three Modification Proposals being considered should be implemented.

Although we had initially supported the implementation of Mod 246B on the basis of its non-retrospective nature and recognition of credit ratings in assessing risk, neither the Review Group 221 nor the proposers of the resulting Modification Proposals provided any quantification of the likely benefits and drawbacks. Following the publication of the IA, it becomes clear that the proposals would in fact impose significant costs on shippers, which are not justifiable relative to the potential benefits they intend to provide.

BP also has reservations regarding two separate credit arrangements that would run alongside one another if any version of Mod 0246 is implemented – the new QSEC based capacity credit arrangements, and the 12 month rolling deadline for all capacity as set out under Section V of the UNC. This makes the process more time-consuming, complex and costly, as two separate credit lines have to be opened. Particularly hard hit will be new entrants or smaller players, who will have to administer these two credit arrangements (as well as transportation credit), and may lack the resource to be able to do so effectively. The question is whether such an approach really is economic and efficient.

Therefore BP welcomes Ofgem's consideration of alternative methods to address the issue of User Default that are outside of the scope of the UNC modification proposals. In our response to the consultation on the Modification Proposals dated 8 May 2009, we made it clear that we felt that what needed to be urgently addressed was the fact that National Grid would be recovering £20m/pa at the Fleetwood Entry Point for the next 5 years from October 2009 (despite the lack of investment). This is an unforeseen event, involving a single shipper at a new entry point – and although it is a high impact event which has never happened before, it is also difficult to predict whether it will ever happen again. Therefore we view the expansion of the list of triggers for an Income Adjusting Event as particularly interesting, as this would provide a tool for adjusting NNG NTS income on such a rare occasion when the risk-reward balance is not being met.

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If you have any questions on the above points, please do not hesitate to contact me

Yours sincerely

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