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Dear Sir

**User Commitment for National Transmission System Quarterly Entry Capacity
Initial Impact Assessment on Modification Proposals 0246/0246A/0246B
Consultation Ref: 120/09**

Chevron North Sea Limited welcomes the opportunity to comment on Ofgem's consultation ref 120/09 relating to the credit arrangements for the booking of entry capacity on the National Transmission System through the long-term (QSEC) auctions.

We do not support proposal 0246 or 0246A because of the retrospective element that requires Users to securitise all existing QSEC capacity holdings. Existing capacity holdings were bought by Users on the basis of the rules, and associated costs, in place at the time of purchase. If Users had known of this additional cost, they may have elected to exercise different bidding strategies in the QSEC auctions. In addition, retrospectively applying new rules and additional costs to existing entry capacity bookings would only enhance the perceived regulatory risk in the UK gas market at a time when new investment should be encouraged to maintain security of supply.

As the change proposed fundamentally alters the cost of taking part in a QSEC auction we consider that any new rules should only apply to new capacity bookings, ie those made after implementation of any modification proposal. As such, proposal 0246B receives our support. There is a risk, however, that the proposed security liabilities may discourage some Users from purchasing long-term entry capacity. If such Users elect to rely on short-term capacity instead, that will deprive National Grid of the long term auction signals which can prove helpful for network planning purposes.

With regard to the level of securitisation proposed, it is not clear why 10% of the value of a User's entry capacity holdings has been determined to be the appropriate level.

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It appears from proposal 0246 (and its alternates 0246A and B) that two separate credit arrangements for entry capacity will be required if this modification is implemented; the new QSEC credit arrangements and the existing 12 month rolling credit requirements as set out in Section V of the UNC. Having to administer two separate credit lines for virtually identical requirements is not cost-effective and we would hope that any eventual modification will enable Users to combine these credit requirements should they wish to.

Finally, we note that proposal 0246 seeks to restrict the available credit tools to a letter of credit or deposit deed. We believe that the full suite of credit tools set out in the UNC should be available to all Users. In particular, including the use of a parent company guarantee would enable some Users to provide credit from a source that is as secure as a letter of credit or deposit deed in a more cost-effective manner.

We hope that you will find these comments useful.

Yours faithfully

A handwritten signature in purple ink, appearing to read 'GFR', with a long horizontal flourish extending to the right.

Geoff Freter
Commercial Manager