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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 above Impact Assessment (IA) which has been produced as part of your decision process for UNC modification proposals 0246, 0246A and 0246B.

Petgas do not support any of the 3 UNC modification proposals 0246, 0246A and 0246B and believe that the IA also fails to make a clear case for the implementation of any of them. All of the proposals would involve significant additional costs being paid by Users, which could both act as a deterrent to booking capacity in the long term auctions and would also put further pressure on the prices paid for gas by suppliers and hence consumers.

If either historic circumstances or future scenarios indicated that there was a significant level of capacity default in the industry then there could possibly be a need for 0246B. However, we do not believe this to be the case. Again this is supported by the IA which refers to the need for very significant volumes of capacity default to justify these costs. For most entry capacity, even where a particular shipper defaults it is likely that another shipper would need the capacity. Therefore the industry focus should be more on encouraging bookings in the long term auctions as opposed to the short term.

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If there are default situations then Petgas believe there are alternative ways of addressing these which could vary according to the exact circumstances of the default. We note that the Impact Assessment has also raised a number of approaches that could be taken relating to licence issues outside of the scope of the UNC. However Petgas also recognises that where shipper default occurs after NGG NTS has completed its full investment and NGG NTS followed acceptable and reasonable practice in completing this investment, then this should be accepted and incorporated into the RAV. Otherwise there is a significant danger that NGG NTS will argue that it's risk profile has changed which could create upward pressures on its overall allowed revenues.

### **Income Adjusting Event (IAE)**

Our preference would be to extend the licence to allow shippers to be able to request the Authority consider an IAE and to adjust the allowed revenue accordingly. This would seem to be particularly suitable where the transporter has accepted bids but has not yet made any significant investment and is therefore likely to make a wind fall gain if the capacity is never utilised. In practice there would need to be some sort of lower cap on the amount that should be considered under an IAE to avoid situations where allowed revenues and costs are subject to frequent and /or trivial adjustment.

This solution would appear to be particularly relevant to the current Canatxx situation should they default on the capacity they have booked. It could also be used where NGG NTS have delivered capacity late by adjusting when they are entitled to collect the revenue.

### **Revenue Drivers**

Petgas see some benefit in this approach but also recognise that its application may be complex in practice and limited as to when it can be used effectively.

### **Shipper termination**

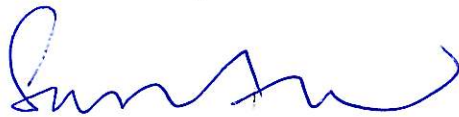
Petgas see limited opportunity to extend the current shipper termination rules. NGG NTS already have the ability to invoke Shipper termination if invoices are unpaid and this is clearly an incentive where a shipper is active and needs to use capacity to satisfy existing commitments. It is not clear how Shipper termination would assist a situation where a shipper has booked capacity but then has no intention to use it. It could only work if the termination cancelled the booked capacity and, in the case of incremental capacity, this then cancelled the ability for NGG NTS to receive revenue for this capacity.

## Other

Where capacity that has been properly provided but is then subject to default it may be an option for this to remain rather than cancel it completely. Potentially it could be held by National Grid NTS in some form so that it is available for transfer or substitution and they could be incentivised to make sure that this capacity is used wherever possible. Whilst this would mean that shippers pick up some part of the additional costs in the short term (depending on how the incentives are structured) it would mean that longer term the capacity is likely to be use either at the original ASEP or elsewhere at which stage the additional costs to shippers should reduce.

Petgas is content that this response may be placed on the Ofgem website and in the Ofgem library.

Yours sincerely,



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