

Paul O'Donovan
Head of Gas Transmission Policy
The Office of Gas and Electricity Markets
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London
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18th November 2009

Dear Paul,

User Commitment for National Transmission System Quarterly Entry Capacity Initial Impact Assessment on Modification Proposals.

Total E&P UK Ltd welcomes the opportunity to comment on the Impact Assessment published by Ofgem regarding UNC Modification Proposals 246, 246A & 246B.

These alternative UNC Mods. have been raised to address the risks surrounding the current credit arrangements within the UNC.

The main issue is the time lag between shippers booking entry capacity in the long term auctions and the provision of any financial commitment by the User with regards to that capacity. We understand the risk that a shipper's default can pose to the community, as NG would still be entitled to collect the full amount of revenue associated to that capacity sold and any deficit would be recovered through changes to the Commodity Charges that we have to pay as Shippers.

We support the view that the timing of the capacity commitment and the financial underpinning should be more closely aligned in order to minimize the associated revenues being recovered through non User specific NTS Transportation Charges.

Chapter 2

Ofgem's document mentions the possibility of NG taking a commercial insurance to cover for potential shipper default; we would be interested in having more information about this option in order to compare its cost to the other options put forward. The RIA would have been the right platform to explore this possibility and present Ofgem's view on this issue.



Chapter 3

The implementation costs of the different proposals vary greatly. It is important that Ofgem keeps in mind that all cost increases are eventually passed on to the consumer, and so the balance between protection benefit and cost to the consumer has to be sought. Because of this TEP UK supports the implementation of UNC. Mod 246 B which has the lowest implementation costs.

Chapter 4

Implementing any of these proposals may make the Long Term Auctions less attractive to shippers. If fewer shippers participate in the Long Term Auctions, NG loses valuable future gas flow information which is used for planning and investment. Currently NG and Ofgem are working on a review of entry capacity pricing, and these issues can't be assessed in isolation. It is important that the pricing arrangements reflect the value that long term signals provide to NG.

We believe that any UNC Mod. which applies retroactively is dangerous and should be avoided. Shippers have been participating in the Long Term Auctions for many years now, and have taken commercial decisions within a certain framework. Whilst we accept the benefits of providing security for capacity closer to the auction times we believe that having a certain, predictable and stable framework is essential for investment and in line with this any proposed modifications to the system should apply for the future only.

We do not think that the proposals can be seen as "simple and transparent". Shippers would have to provide security ahead of bidding for entry capacity so complications may arise. Having a system where capacity is securitized after it has been confirmed would be simpler.

Because of the above TEP UK supports the implementation of UNC. Mod 246 B.

Chapter 5

We believe that closer attention has to be paid to the fact that the current licence arrangements allow NG NTS to recover the revenue associated with entry capacity for which no investment has been made, which creates a discrepancy between NG NTS allowed revenue and costs incurred. We believe the current arrangement is not in the best interest of the industry or consumers and would benefit from further analysis. In line with this we believe that the current Income Adjusting Event figure should be modified to include cases where NG is making a windfall gain.

Your analysis highlights the inconsistencies of accepting only certain credit tools and not others, and we strongly believe that all credit tools currently accepted by the UNC should be maintained for this purpose. This means that Parent Company Guaranties and Bi-lateral insurances would be valid, along with Deposit deeds and Letters of Credit. This approach is a more appropriate, providing a good balance between credit securities and minimizing costs to consumers.

Because of this TEP UK supports the implementation of UNC. Mod 246 B.



We hope that these comments are useful and if you have any questions regarding this response, please do not hesitate to contact me.

Yours sincerely

Iain McCombie
Commercial Operations Manager
Total Exploration & Production UK Ltd.

(This letter is sent electronically and therefore not signed)

