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Dear Sonia,

**NGT Transco – potential sale of gas distribution network businesses
Initial thoughts on restructuring of Transco plc's Gas Transporter Licences**

Thank you for the opportunity to comment on this consultation; BP's response is not confidential and may be placed in Ofgem's library and on its website.

Before I address the specific issues in the consultation I would like to make some general points;

General

Ofgem is carrying out this particular consultation "in light of Transco's commercial timetable" for the potential sale of a number of Distribution Networks (DNs). It would be most helpful if Transco could provide a detailed forward work programme to better enable other market participants to plan and prepare for potential process and systems changes, some of which could have significant impacts for shippers.

BP has considered Ofgem's initial thoughts in the document; however, due to finite resources and the short timescale for review, BP has not fully considered the detail of Transco's draft NGT and DN GT licences published on 15 September 2004.

The current integrated nature of Transco's business is reflected in its current GT licence; therefore the existing GT licence and the new additional licences, if granted, will require substantial amendment and restructure.

Since this is an "initial thoughts" document, it provides only a high level outline of changes that may be required to Transco's licences. BP welcomes Ofgem's recognition that significant further development and consultation is required before such changes could be implemented, and BP looks forward to being able to provide more detailed comments once Ofgem has further developed the proposals.

We now comment on Ofgem's initial thoughts on the possible modifications to Transco's existing GT licence and, if granted, the new additional GT licences in the context of the

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proposed sale of one or more DNs by Transco. In particular we have focused on the key issues regarding changes to the licensing regime that would be required in the event that DN sales proceeds, rather than the process for modifying the licences.

Transportation charging arrangements

Methodology for distribution charging arrangements – BP shares the concern that changes in DN ownership might bring about differences in the way in which owners of the networks calculate charges for users of their network. Ofgem's proposal to mitigate the risk of inefficient fragmentation of the methodology (i.e. the concept of a Joint Office with responsibility for managing modifications to the distribution charging arrangements) will go some way towards facilitating co-ordination of the development of charging methodologies across the industry. However, we remain concerned that the development of different charging methodologies is not precluded, and Ofgem should recognise that any divergence will lead to increased costs for system changes for those users.

Frequency of changes to use of system charges – BP shares the concern that different DN owners might choose to update their distribution charges at various times of the year, and that such an uncoordinated approach could impose additional costs on shippers for updating systems more frequently. Ofgem's proposal to oblige GTs to use "reasonable endeavours" to announce changes to these charges on one specific date each year will, as above, go some way towards facilitating coordination. However, this is not a firm commitment and Ofgem should recognise that on those occasions where it may be necessary for GTs to change their charges more frequently, costs for changing shipper systems will increase.

Emergency services co-ordination

DN Boundaries – BP's view is that it will be necessary to ensure that the licence condition relating to emergencies ensures that whichever DN is notified of the incident and despatches an engineer to it is obliged to make safe the incident regardless of the network on which it transpires that the incident has actually occurred.

BP also suggests that specific DN performance statistics should be maintained and provided in addition to the national performance standards.

First response emergency services to IGTs – BP's view is that a licence condition should be placed upon the DN-GTs that obliges them to make available to IGTs only those services considered to be monopoly services, rather than those that might be considered to be available on a commercial basis (such as ongoing repair and restoration services).

First response emergency services to NTS – BP agrees that it would not be efficient for the NTS to provide its own emergency workforce, given the infrequency of incidents on the NTS and the need to respond to any incident within one hour. BP's view is that Transco NTS should purchase this service under generic terms with all the DNs.

Performance statistics for responses to NTS incidents should form part of separate DN reporting and such information should be made publicly available.

System operator managed services agreements

BP is supportive of Ofgem's indication that it is minded not to regulate Network Service Agreements (NSAs) which it is envisaged will be implemented as an interim measure. In order to comment in greater detail we would of course need to understand the full detail of the proposals which will be developed following this "initial views" consultation.

Network Code and offtake arrangements

Transco's preferred approach of UNC plus offtake code, as separate agreements with a single set of overarching governance arrangements, is the most complicated option. The document does not give any further detail nor explain the reason why this would be Transco's preferred approach; consequently no case has been presented for any benefits arising from the introduction of additional complexity.

Whatever change is finally deemed appropriate, it is our view that arrangements should minimise costs and avoid unnecessary complexity, and BP is therefore supportive of measures which support these principles.

Price controls and incentive arrangements

BP agrees with Ofgem's view that it would not be appropriate to reopen Transco's existing price control on account of the sale of DNs.

With regard to incentives to be placed on the DN-GTs to encourage accurate investment decisions by DNs, there is insufficient detail contained within this document and BP looks forward to considering Ofgem's planned November 2004 document which will provide the proposed detail.

Pipeline security standards

Ofgem raises the question of whether the 1 in 20 security standard should continue to apply to both the NTS and DNs. In our view, if alternatives to this standard are to be developed and subsequently proposed, it would be essential that a clear and robust case be made to demonstrate beyond reasonable doubt that neither security of supply nor the safety and integrity of the pipeline system will be detrimentally impacted by any such alternative arrangements.

Ofgem's document does not detail any alternatives that Ofgem may believe warrant consideration. We look forward to considering the detail of any such proposals which may result when the consultation process enters the detail phase.

Conclusion

BP's comments are limited to the extent that this "initial thoughts" document provides only a high level outline of the changes that may be required; BP looks forward to being able to provide more detailed comments once Ofgem has further developed the proposals.

Nevertheless, I hope that you find our comments helpful. Please do not hesitate to contact me if you would like to discuss any of the issues raised.

Yours sincerely,

Beverly Ord
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