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Ofgem
9 Millbank
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11th November 2005

Dear Sonia,

UNC Modification Proposal 006 “3rd Party Proposal: Publication of Near Real Time Data at UK sub-terminals.”

ConocoPhillips (COP) appreciates the opportunity to input into Ofgem’s understanding of the additional costs imposed through the publication of real time data at UK sub-terminal level compared to the present, aggregated North-South flow information release.

The United Kingdom Offshore Association, of which COP is a member, is also submitting a response that COP supports. Therefore our response will not duplicate comments therein.

We are aware that on the 15th November (next week) NG will be releasing its revised website that will contain, in one location, information regarding supply and demand. It is perhaps premature that we are being consulted now ahead of that system being live.

Most of industry discussion about gas prices and supply interruption concerns events in February and March of last winter, when a major price spike occurred. A question we have is whether the proposed modification, if implemented, would have made any difference – we doubt it but would appreciate Ofgem’s views. Surely this is the period that Ofgem should be consulting on regarding the validity of live data, rather than in the summer, when gas supplies are plentiful?

COP’s view of the proposed granularity of data on a real time basis is contained below, structured around the three questions within the consultation response:

1. The way in which your company/members has used the information provided as part of the DTI-UKOOA voluntary information initiative;

A key question about information and markets is “Can the market make informed decisions on the basis of information released?” The recent release of gas flow data on an aggregated North/South basis has been valuable to gain an understanding of

changes in market condition and in particular linepack movements. It is important to note that this particular granularity of data from the experience to date does not appear to have added additional volatility in the market.

2. The way in which your company/members may use the information that would be provided were the Authority to approve implementation of the proposal;

COP does not envisage the release of gas flow data on a terminal basis within real time being of value to the market. We believe that the most useful publication of data, is the release of linepack that provides the whole view of the current status of the market on an hourly basis, taking into consideration not only supply but also demand, storage and interconnector flows. It is interesting to note that although progress has been made on releasing live data on supply and interconnector flows; little progress has been made on the release of storage flow data, which is growing in importance.

Linepack is the key determinant in market participants taking action within the gas day. We believe that the importance of linepack data will increase over time especially as import/export pipelines develop (e.g. expansion of the Zeebrugge interconnector, BBL, Ormen Lange), storage capacity within the UK increases and finally, as LNG flows become of greater importance to the UK. We therefore conclude that the usefulness of this particular proposal to the market diminishes over time, as the UK becomes a net importer, increasing its reliance upon external flows and storage capacity for everyday gas balancing. Significant demand-side responses may also develop (through DSWG efforts) to the extent that they also need to be transparent to the market.

3. The incremental value (both potential costs and benefits) that your company/members may accrue were the Authority to approve implementation of the proposal.

COP believes the approval to implement this proposal would likely incur it, as a gas producer, to be adversely and disproportionately impacted, compared to other non-producing market participants. As a consequence of the proposal releasing terminal gas flow data in real time, a producer's inadvertent short position (caused by trading ahead of the gas day and suffering unplanned outages) could be disclosed to the market, which would increase the price of gas and increase the cost to a producer of covering its position. Such increased gas market prices are eventually borne by the end consumer.

Greater volatility is also likely to arise as a result of this proposal, increasing costs to consumers. This is due to terminal gas flows varying through the gas day because of unplanned and planned operational issues arising. The introduction of greater volatility to the UK gas market is only beneficial to the trading community rather than those with physical assets and most importantly end consumers.

In summary, COP does not see significant overall merit in the Authority approving this proposal when taking into consideration the limited value of the data compared

to linepack and the additional costs of greater volatility being introduced to the gas market, which could increase gas prices overall. We question whether the market can make informed decisions on the basis of information proposed for release and also whether the correct period is being reviewed.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'R Patel', with a large, sweeping flourish extending from the end.

Rekha Patel
Power Regulatory Analyst