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Ms. Sonia Brown
Director, Markets
Office of Gas and Electricity Markets
9 Millbank
London
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11th November 2005

BD/COM 05-083

Dear Ms. Brown,

UNC Modification Proposal 006
Publication of near to Real Time Data at Sub-terminals

Following Ofgem's letter of the 24th October 2005, Total E&P UK PLC are pleased to contribute to the further understanding of costs and benefits related to the approval or rejection of the above mentioned Modification Proposal. Total E&P UK PLC is primarily an upstream gas producer, and it is from this role that we will be providing our views.

Information provided following DTI- UKOOA Voluntary Agreement

After significant cooperation and effort between DTI, Ofgem, Transco and UKOOA, in late June 2005 Transco commenced the publication of flows into the NTS on a North/South aggregated, hourly basis. We agree with Transco and several other respondents as seen in the published Final Modification Report that the provision of Phase III Category 1 data¹ should be able to bring about many of the benefits put forward supporting Modification Proposal 006. This data has been available for just over four months, but we are confident that given a full year, and especially through a winter period, market participants will see the benefit.

By having access to near real-time flows in the North/South format, the market will be able to assess the level of supply into the NTS, with little being gained from having access to specific sub-terminal flows. We believe none of the parties supporting Modification 006 have to date explained adequately the incremental benefits of receiving data flows from each sub-terminal rather than in the aggregated North / South format agreed.

We consider additionally that, as most gas trading occurs at the NBP, further disaggregating is unnecessary and could be confusing

¹ Real-time flows into the NTS (as close to real-time as feasible), aggregated into national and zonal (North/South)

Information that would be provided if Modification 006 were to be implemented

The Final Modification Report submitted to Ofgem (Version 5.0) adequately explains the various technical, commercial, and legal problems that Transco would face if it was made to publish disaggregate information as a result of this modification being implemented. We will not detail these issues here, but we believe they are serious enough to merit a thorough analysis, and we look forward to Ofgem's Impact Assessment review of these issues, along with others such as confidentiality and liability problems that could arise if Modification 006 were to be implemented.

The provision of real time disaggregate sub-terminal information could lead to the information being misinterpreted and could at worse be misleading to market participants, with the market being over sensitive to apparent supply reductions which do not materialize. This might lead to increased volatility in gas prices and introduce inefficiencies into the market. We support the view that information to the market needs to be timely, accurate and credible in order to be of value, and we do not think this Modification Proposal fulfils the categories. The Final Modification Report describes in detail the likelihood of inaccuracies of this type of information, and with regards to timeliness of the data, we believe that supply and demand side information should be provided in the same manner so that shippers can understand what effect changes in the supply side can have on the system by comparing with demand, and currently demand and line-pack information is provided on an hourly basis.

As Terminal Operators we are particularly worried that as individual flows into the NTS become available to the wider market, strain will be placed on the existing communication interfaces between the Terminal, its upstream users as field owners and operators and downstream shippers, as market participants may become oversensitive to changes in flows into the NTS and may request instant information from the Terminal, for short duration upsets that may have no subsequent impact on the market.

The real-time access to this information may also impact adversely on our possibility as producers to comply with some of our contractual obligations in the case of a production upset. Currently if we encounter a supply disruption, we would go to the market to source the gas in order to fulfil our contractual obligations. We would try to obtain the necessary gas at the current price before the market reacts to the shortage and prices soar. But this flexibility will clearly be reduced if the market is almost instantly made aware of the supply reduction, and the price paid for the replacement gas in order to fulfil contractual obligations could be substantially higher than would be the case if Modification 006 was not approved.

Conclusions

We understand and share the current concern regarding high wholesale gas prices, but we believe that most large and industrial users concerns relate to the forward gas market prices rather than the on-the-day market. The information that would be made available through Modification 006 would do nothing to ease the high prices in the forward market, as these relate to "supply demand fundamentals...a tightening of the supply demand ratio with the decline of the UKCS and the UK's increased

dependence on storage and gas imports from Europe”.² This Modification would affect solely the prompt market, and it is not yet clear to many of the market participants that this effect will actually translate into lower on-the-day gas prices. As previously explained, we believe that the provision of real-time data will create a structural bias, as there will not be such data available on line-pack and demand, which could lead to increased volatility.

Total E&P UK PLC supports the provision of relevant gas information to the market. We have actively supported UKOOA in the discussion process that led to the DTI-UKOOA initiative, and we have always cooperated with Transco’s TBE planning. In accordance with this we believe that Phase III Category 1 data strikes a pragmatic balance between the market based objectives and the legal and commercial concerns.

Please do not hesitate to contact myself if you should wish to discuss this matter further.

Yours Sincerely,

Bruno Seilhan
Commercial Operations Manager
Total E&P UK PLC

(This letter is sent electronically and therefore is not signed)

² Transco’s Final Modification Report p14