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Proposed Incentive Arrangements for the Provision of NTS Entry Capacity at Milford Haven

Dear Robert

Thank you for the opportunity to comment on the above consultation. Our response is not confidential and may therefore be placed in your library and on your website.

Whilst we appreciate that the scope of Ofgem's document is to address issues solely at Milford Haven, we suggest that there are two sets of issues, namely (a) resolving the specific issues related to Milford Haven, and (b) considering how best to avoid similar delays in physical capacity provision at any entry point which might be detrimental to UK security of supply.

BP is supportive of stronger incentives being placed on National Grid Gas NTS to deliver any reinforcement required to provide an appropriate levels of physical capacity at Milford Haven in response to market signals including those emanating from the QSEC auctions in 2004. Such a change would we believe be beneficial to UK security of supply as it would increase the probability of physical capacity being delivered in a timely manner.

BP believes that it would be beneficial to the efficiency of the regime if National Grid Gas NTS were to be exposed to a greater incentive to avoid delay in delivering physical capacity. Furthermore it would seem inefficient for shippers to be detrimentally impacted by a National Grid Gas NTS failure to deliver physical capacity in a timely manner, over which the shipper has no control.

Ofgem proposes four options. BP is supportive of the strongest incentives being placed on National Grid. With respect to the features of the incentives, we believe that it is important that they are structured in a way so as to avoid the cap on liability being reached before actual delivery of the physical capacity is achieved, otherwise there would be a period from that point until project completion where there would be no further financial incentive on National Grid Gas NTS to deliver the capacity within the timescales of the 2004 QSEC auctions. On that basis we believe that Options C and D would be the most appropriate options. Of the two we are of the opinion that Option D would impose the most effective incentives on National Grid Gas NTS. Options A and B although placing high liabilities on National Grid Gas NTS in 2007 and Q1 2008 no incentive carries through to Q2 and Q3 2008 in the event that the reinforcement work is severely delayed.

We understand that Ofgem envisages that in order to address specific issues relating to Milford Haven, changes are proposed initially to be made only to the incentives in place for that entry point. National Grid Gas NTS would therefore remain with liability at other entry points capped at £12.5 million in any formula year with any further costs of capacity buyback recovered from shippers.

However, in relation to Milford Haven stronger incentives would apply (the detail being dependant on which option within the proposal were to be selected). Ofgem indicates that incentives at other entry points would be reviewed later under the transmission price control review, out of which any changes identified would likely apply from 1 April '07.

It would therefore be helpful if Ofgem could provide further detail of how a non discriminatory 'level playing field' would be maintained for all entry points in the light of the envisaged earlier amendments specific to Milford Haven, which would appear to indicate that stronger incentives would prevail at that entry point compared to other entry points for a period of time.

We believe that similar incentives should be in place at all entry points and therefore if it is concluded that stronger incentives are appropriate for Milford Haven, we believe that consideration should be given to the application of those stronger incentives simultaneously at all entry points.

Furthermore with the UK gas industry in a key phase of transition to net importer and a number on new import projects under consideration or development, we believe that it is prudent for there to be no delay in implementing stronger incentives for all entry points should they be appropriate. In our view this should be undertaken with the objective of ensuring that there is no repetition of a delay in providing significant additional physical import capacity volumes which will contribute towards UK security of supply.

We trust that the above comments will be of assistance. Please do not hesitate to contact me should you wish to discuss the contents of this letter further.

Yours sincerely,

Andrew Pearce
Regulatory Affairs