TOTAL E&P UK PLC

David Howdon
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Office of Gas and Electricity Markets
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Our Ref: 06-022

May 12th 2006

Dear Mr. Howdon,

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

Total Exploration and Production UK PLC (TEP) welcomes the opportunity to comment on the above document.

We agree with your initiative, and believe that if National Grid Gas NTS (NGG) has sold capacity on a firm basis to shippers at an entry point, it should be NGG bearing the risk if they fail to make this capacity available to shippers in the required time frame. Given NGG's experience as Transmission and System Operator, we believe it's their responsibility to assess the circumstances surrounding each case where they agree to provide incremental capacity so that excessive buy back costs are avoided.

If NGG fail to do this, consumers will be hit not only by the high charges from the buyback costs, but also from the possible high prices volatility that could result from the UK receiving less gas than planed, and LNG cargoes being diverted from the UK into other gas markets which may not be connected with the UK market.

For the case of Milford Haven, we understand that if the completion of the reinforcement work is considerably delayed, buy-back costs incurred by NGG could be significantly high (especially if delayed till end Q1 2008). We agree that existing incentive arrangements should be strengthened to make NGG liable for a higher proportion of the buyback costs, so that the cost on shippers and consumers is appropriate and not excessive. We believe that such a move would incentivise NGG to complete its works in time so as not to undermine the UK Security of Supply.

With regard to the questions you have posed:

Question 1 - TEP believe that there should be new incentive arrangements for the incremental capacity to be provided at Milford Haven.

Question 2 - We generally support the principles identified in paragraph 4.3

Question 3 - NGG's exposure should be deferred but only in the event of truly exceptional factors. For example we would not consider adverse weather conditions to be an exceptional factor.

Question 4 – The advantages of the proposed arrangements are that they increase the exposure that would be faced by NGG should they have to buyback.

The disadvantages are that Shippers will still face a very considerable exposure from any buy back costs and that the overall increase in NGG's cap may still fall well short of the actual buy back costs that will be incurred, depending on the circumstances at the time. As such, of the 4 options put forward, our preference would be for Option A with an addition that there should be a further extension of the Cap for any delay past March 2008.

Question 5 – We understand that there may be difficulties working over the November to February period but do not believe these constitute grounds for deferring the incentive.

Question 6 – see Question 4

Question 7 – As suggested earlier, a further step would be to reduce the share of any buyback liability taken by shippers

Please do not hesitate to contact me if you have any further questions.

Yours sincerely

Bruno Seilhan
Commercial Operations Manager
Total E&P UK PLC

[NOT SIGNED AS SENT ELECTRONICALLY]