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Summary Report on Gas Entry Baseline Workshops Response to National Grid's Document

Dear Nienke,

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Total E&P UK welcomes the opportunity to comment on National Grid's (NG) Summary Report on Baseline Capacity issued September 29th 2007.

We appreciate Ofgem and NG's work on re-consulting the Baselines across the NTS and we believe it is the right way forward as there is still much uncertainty over the changes introduced through the last Transmission Price Control Review (TPCR).

As the NG document itself proposes no questions, we volunteer some key principles that we believe should be kept in mind when assessing issues such as Baseline Capacity and Substitution.

- We believe the whole industry would benefit from increased stability. During the last TPCR process (2002) it was made clear that the overall system would remain in place and only minor changes would be made in subsequent TPCR's. We realize that if certain elements prove not to work they should be improved at the next opportunity (the following TPCR) but we believe that any changes made should be tailored to the particular problems identified and keeping in mind that the aim is "fine-tuning". For example, eliminating the discounted pricing in the short-term auctions could have solved many related problems whilst keeping change to a minimum.
- Transmission is the final element of getting gas from producers to consumers. Transmission rules should be such that they do not deter producers (indigenous and foreign) from flowing gas into the UK. Ensuring that Transmission rules are stable, transparent and adapted to making the UK an attractive landing point for producers is in line with Ofgem's priority: protecting consumers by promoting competition and securing Britain's energy supplies.
- We would appreciate more transparency as to how NG performs during each TPCR. We would welcome an independent audit on NG's modelling and performance, and we are aware that this feeling is shared across the shipping community. Discussing how to allocate 1554 GWh/d of "unallocated" capacity seems unimportant if we have no certainty as to what the real aggregate level of capacity within the NTS is.



- Several publications such as the Ten Year Statement (TYS), Energy White Paper and TBE documents forecast gas will continue to play a very important role in the UK's energy mix, and that demand will grow. Despite this, in the modelling done by NG at Ofgem's request "supply substitution" was used. This meant that for increased flows at any ASEP, flows had to reduce at another ASEP, as demand was modelled to remain unchanged. It could be possible that if "load absorption" was used instead the aggregate levels of NTS capacity would have been higher, as at higher demand the level of flows that the system can take increases. We would be interested in understanding better the use of this assumption.
- We were surprised to see the reduction on capacity held back for the short term auctions from 20% to 10% of Baseline. When shippers bid in the 2003 QSEC Auctions their bidding strategy was based around the fact that 20% of capacity at the ASEP's they were bidding for would be made available in the Short Term Auctions, only to find out now that it will not be the case. Changes like this one increase shipper's sense of instability. The QSECA offer capacity up to 17 years ahead, but within that period the rules could change up to three times, one for each TPCR.

Also we believe this move could be detrimental to the flexibility and responsiveness of the NTS. Shippers need certainty that capacity will be available closer to the time when the capacity could actually be needed, so we support a return to 20% capacity held back for the short term auctions.

- Substitution is a good concept in theory, but unfortunately it has been included in NG's licence with out proper assessment of possible effects. We would welcome Ofgem's Impact Assessment to review this issue in detail. We believe that substitution methodology should be kept as close to Option 5 as possible;
 - For the sake of certainty and stability only some capacity should be available for substitution
 - To avoid capacity destruction within the NTS a cap should exist on the exchange rate used. Anything other than a 1:1 exchange is an inefficient use of the system.
 - The NPV test should be maintained. It should work just the same as the request for Incremental Capacity. If a two-tier system is created with a lower NPV test, some shippers will be granted capacity through substitution (at a lower rate) whilst others have to signal strong financial commitments to pass the NPV test in order to obtain capacity. It could happen that all recipient ASEP's are in the same zone but substituted capacity will only satisfy one of them. How will NG decide? Unless the NPV test is maintained NG's decision could be seen as undue discrimination.
- In order to allocate any unallocated capacity we believe that forecast flows (from the TYS) are a better parameter than historical flows or previous baselines. By using forecasts we ensure that capacity is allocated where it will be needed which is crucial as the pattern of gas supply to the UK changes. Still it is clear that major developments which are public knowledge fail to make it to the TYS soon



enough, as the TYS 2006 does not include projects such as Excelerate at Teesside or the potential of West of Shetland, and this has to be considered by Ofgem and NG when planning for future NTS capacity. We do not advocate investment without shipper commitment, but we do believe that Ofgem and NG can use their vast array of information to ensure that any modifications they propose do not impact adversely on future developments deterring investment and production.

Total E&P have actively participated in the Baseline Workshops and we hope that Ofgem and National Grid will find our contribution useful. Please do not hesitate to contact us if you feel the need to discuss these issues further.

Yours Sincerely,

Iain McCombie
Commercial Operations Manager
Total E&P UK Ltd.

(This letter was sent electronically and therefore it has not been signed)

