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**TPCR baseline re-consultation**

Thank you for the opportunity to comment on the process for reviewing the baselines and the reconsultation document. We have provided answers to the specific questions raised in the consultation document in the attachment to this letter. In this letter we make some general observations on the position reached and the way forward.

ConocoPhillips (U.K.) Limited supports the need to review the baselines and produce a more representative process going forward that better reflects system availability. The previous allocation process was hurried, lacked transparency and was arbitrary. However we are nervous about further significant change to the commercial arrangements for access to the gas system and the interactions that are likely to arise across the range of other complex reform initiatives already underway.

Specifically the interplay with trade and transfer processes needs to be understood and taken into account, including assimilation of lessons learnt from trading over the current winter under the present temporary scheme. At this stage we do not know how the trade and transfer arrangements may evolve beyond April 2008, even though this is the period coincident with application of any revised baselines. There are also likely to be important interactions with proposals being developed for substitutability, which are not well-defined as yet.

It would also be prudent to establish the scope for trading under the new UNC169 rules and how recalculation and reallocation of baselines is to be taken forward before further changes are scoped for long-term capacity substitution. In this context we believe that there exists considerable flexibility for adjusting entry positions under current rules and mechanisms (which is how ConocoPhillips has managed to rationalise its commercial position after the revision to the TPCR baselines) without needing to contemplate complex capacity substitutions over the longer term.

Finally there is a general need for more transparency on system capability, how this is changing and on the investment outlook, including expectations of network constraints and steps proposed to address them.

Please let me know if you require clarification on any of these points or any further information.

Yours sincerely  
Kirsten Elliott-Smith

**TPCR baseline re-consultation**  
**Responses by ConocoPhillips**

**Chapter 4 TPCR approach to baseline determination**

***Q1: Do you agree with the objectives of the TPCR baseline review?***

Yes. The backend of the process under the TPCR was hurried, arbitrary and lacked transparency.

***Q2: Do you agree with the modelling approach we asked NGG NTS to carry out? If not, why not?***

The approach appears sensible.

***Q3: One of the main difficulties we faced in the run up to the Final Proposals was to account for zonal constraints. Are there any better ways of accounting for zonal constraints?***

There appears to be consensus that a better approach is required to properly reflect zonal constraints, and the industry needs to see much better information. The present workstream needs to address this issue.

***Q4: Are there any other issues we should have considered in this chapter?***

The interaction with trade and transfer processes needs to be taken into account both as they have been implemented for winter 2007-08 and how they may evolve as enduring arrangements.

There are also likely to be important interactions with proposals for capacity substitutability. However we believe that there exists considerable flexibility for adjusting positions under current mechanisms without needing to contemplate complex capacity substitutions.

**Chapter 5 Sensitivity analysis**

***Q1: Would you consider any of the alternative approaches for allocating the free increment as discussed in this chapter more or less appropriate than the approach adopted for the TPCR Final Proposals baselines, please give reasons why.***

It is difficult to express a firm judgment without further analysis.

***Q2: We allocated the Caythorpe and Blyborough (Welton) free increments to Hornsea and Theddlethorpe respectively, do you agree with this approach or should these free increments have been allocated in a different way and if so, how and why?***

Again it is difficult to express a firm judgment without further analysis.

***Q3: NGG NTS presented three principles in order to allocate baseline capacity, namely to (i) allocate in line with physical capacity; (ii) constrain not to exceed***

*previous obligated levels; and (iii) be broadly commensurate with buyback target. Do you agree with these principles? Please explain why or why not.*

All three principles are sensible, though the quantum of physical capacity is or should be paramount.

*Q4: NGG NTS presented slightly different ways of reallocating entry capacity to different entry points, would you find these approaches more or less appropriate? Please give reasons why.*

No comment.

*Q5: Are there any other considerations which we have not highlighted which we should have taken into account?*

The extent of the initial scale back and the commercial adjustments achieved through subsequent auctions should be taken into account.

## **Chapter 6 Way forward**

### **Reallocating TPCR Final Proposals aggregate baseline capacity**

*Q1: Is our approach for allocating the free increment, taking zonal constraints into account appropriate, given the premise that baselines need to reflect the physical capability of the system?*

It does not seem unreasonable.

*Q2: Are there any other factors that we have not considered which should be assessed in considering an appropriate adjustment to baselines?*

As noted above, the interaction with other workstreams and especially the trade and transfer development and capacity substitution must be looked at in parallel.

*Q3: What are your views on the different options outlined for allocating capacity in a different way, whilst maintaining aggregate baselines at the current TPCR Final Proposals level of 7629 GWh/d?*

There is an argument that the damage has been done through the scale back and market participants have already adjusted to this. It might be more prudent to gain experience of the new trade and transfer arrangements before contemplating further change, especially if the total aggregate baseline quantity is to remain the same.

*Q4: What are the advantages and disadvantages of keeping baselines unchanged at their current TPCR Final Proposals level?*

As above. The matter could then be looked at in the round in the run up to the next TPCR, when the allocation methodology and the aggregate baseline can be considered together. Put another way there is little point in reallocating capacity at this late stage if the aggregate capacity is not to be increased. More fundamentally existing commercial positions and responses to the scale back should be respected.

### **Increasing aggregate baseline capacity**

***Q5: If we were to increase the aggregate baselines how could we quantify possible increases in buyback costs and/or capex allowance also given the timescales involved?***

The consultation document sets out relevant options.

***Q6: If we were to increase the aggregate baselines how should we allocate the additional capacity? Which mechanism, if any, should we use?***

Parties who have acted to secure their commercial positions as a result of the scale back should not be penalised.

***Q7: Are there any other considerations which we have not highlighted which should be taken into account if we were to increase aggregate baselines?***

Baselines are not set in isolation but as part of the wider TPCR package. Careful consideration will be required on the incentives and costs faced by NGG under existing mechanisms, including under incremental capacity release and through the entry capacity buy-back incentive, as well as through the in-going workstreams noted above. In particular there is shippers and suppliers facing disproportionate risk as a consequence of further change because of Ofgem's stated desire that further changes should not materially affect NGG NTS' risk profile.

It is worth reiterating that any introduction of additional capacity and flexibility should recognise the commercial positions individual parties have build up through the auctions, despite the initial rationing of capacity.