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John Bradley
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Dear John

Modification Proposals No. 0246, 0246A and 0246B: Quarterly NTS Entry Capacity User Commitment

Nexen Energy Marketing London Limited (NEML) welcomes the opportunity to comment upon the introduction of Shippers' securitising against their long term entry capacity holdings through the three alternative UNC modification proposals mentioned above.

NEML supports the continuation of the existing credit rules and believes it is an appropriate regime, however, if the regulator feels the need for additional credit requirements, then, of the modifications proposed, NEML supports modification 0246B only as a result of the proposal containing no retrospective element. 0246B would only apply to QSEC bookings made after its implementation. We believe it is inappropriate to retrospectively apply changes to the UK gas market due to the perverse incentives created. For example, some Shippers made significant commitments through securing long term capacity numerous years in the future. We believe that the application of retrospection proposed in modification 246 and 246A could be potentially more harmful to the industry due to increasing the probability of Shippers returning their long term capacity holders back to National Grid. The perverse incentives created by retrospection shall impact Standard Special Condition A11.1 (d) through reducing competition in the industry and Standard Special Condition A11.1 (c) reducing the efficient discharge of the licensee's obligations under this licence.

NEML believes modification proposal 0246B would, if implemented, better facilitate the following Relevant Objectives as set out in its Gas Transporters Licence. In respect of Standard Special Condition A11 1(a), the efficient and economic operation of the pipeline, this proposal discourages speculative QSEC auction bidding, thus reducing the risk of inefficient system investment. In respect of Standard Condition A11.1(c) the efficient discharge of the licensee's obligations under this licence, by requiring Users to underwrite their anticipated allocation of capacity prior to a QSEC, proposal 0246B provides an appropriate level of incentive on Users not to bid in such auctions in a speculative manner. In respect of Standard Special Condition A11 1(d), the securing of effective competition; proposal 0246B does not impose a costly, retrospective credit requirement upon existing holders of QSEC entry capacity and therefore avoids the scenario where capacity is returned back to the System Operator and the relevant User exits the UK gas market.

Yours sincerely,

Katrisha Gibson
Senior Originator