

John Bradley
Modification Panel Secretary
Joint Office of Gas Transporters
31 Homer Road,
Solihull,
B91 3QJ

Ref. BD/ COM 09/025

May 7th 2009

Response to UNC Modification Proposals:

0246 - Quarterly NTS Entry Capacity User Commitment (NG)
0246 A - Quarterly NTS Entry Capacity User Commitment (EDF)
0246 B - Quarterly NTS Entry Capacity User Commitment (BGT)

Dear John,

Total E&P UK Ltd welcomes the opportunity to respond to UNC Modification Proposals 246, 246A & 246B.

These alternative UNC Mods. have been raised to address two problems identified in the current credit arrangements within the UNC.

The first issue is the existing loophole whereby a user can decline NG NTS request for credit 12 months in advance of the capacity delivery, and repeatedly defer the provision of credit without incurring any costs.

We agree with all proposals that this issue needs to be tackled and believe that the proposed changes to the UNC will achieve the desired affect.

- To remove the ability for a User to defer the provision of security required under UNC TPD Section B2.2.15.
- To treat the User as still holding that capacity and invoice him accordingly.
- To reject any further capacity bids from such User until security has been provided.

The second issue is the time lag between shippers booking entry capacity in the long term auctions and the provision of any financial commitment by the User with regards to that capacity. We understand the risk that a shipper's default can pose to the community, as NG would still be entitled to collect the full amount of revenue associated to that capacity sold and any deficit would be recovered through changes to the general Transportation Charges (Commodity Charges). We believe that closer attention has to be paid to the fact that the current licence arrangements allow NG NTS to recover the revenue associated with entry capacity for which no investment has been made, which creates a discrepancy between NG NTS allowed revenue and costs incurred. We believe the current arrangement is not in the best interest of the industry or consumers and would benefit from further analysis.

We support the view that the timing of the capacity commitment and the financial underpinning should be more closely aligned in order to minimize the associated revenues being recovered through non User specific NTS Transportation Charges.

We believe that the current credit tools detailed within the UNC should be maintained and we do not favour the restriction that would follow from implementation of UNC Mod. 246 which proposes that only a Letter of Credit (LoC) or a Deposit Deed (DD) from a bank with an A grading from Moody's are acceptable.

This would mean that a parent Company Guarantee (PCG) from a company with a rating higher than A would be dismissed, in favour of a LoC from a bank with an A credit rating.

We agree with UNC Mod. 246 A that "forcing a company with an A grade rating or higher to provide the same credit as a company with no credit rating could be viewed as undue discrimination as this fails to take into account the difference between the two companies."

We believe that maintaining the current acceptable credit tools detailed with in the UNC is a more appropriate approach, providing a good balance between credit securities and minimizing costs to consumers.

We agree with UNC Mod. 246 B in avoiding the use of the term "cancellation fee" as there is a risk that this terminology may legitimize the actions which all three UNC Mod.'s wish to prevent.

Finally, we believe that following a User defaulting from its previous capacity commitments, the deficit created to NG's allowed revenue is exacerbated by the fact that, under the current regime, entry capacity loses value as the day of delivery approaches. The fact that entry capacity is sold at heavily discounted prices in the Day-Ahead auctions, and for zero on the daily auctions hampers the existence of a secondary market for entry capacity. Conversely if entry capacity was sold at a premium on the short term auctions, any deficits faced by NG would be more readily recovered, leading to a reduction in the non-user specific NG NTS Transmission Charges. We believe that, because the short term auctions offer shippers flexibility whilst providing no valuable long-term signal to NG to support network investment, they should offer capacity at a higher price than the long-term auctions.

For clarity, we do not support the implementation of UNC. Mod 246. We do support UNC Mod. 246 A and UNC Mod. 246 B.

We hope that these comments are useful and if you have any questions regarding this response, please do not hesitate to contact me.

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

This letter is sent electronically and therefore it is not signed