

Julian Majdanski
UNC Modification Panel Secretary
Joint Office of Gas Transporters
Ground Floor
51 Homer Road
Solihull
B91 3QJ

Re: UNC150/151/150A/151A

ConocoPhillips (U.K.) Ltd (CoP), offer the following comments in relation to four modification proposals:

- UNC Modification Proposal 0150: Introduction of the AMTSEC Auction;
- UNC Modification Proposal 0151: Transfer of Sold Capacity between ASEPs;
- UNC Modification Proposal 0150A: Introduction of Unsold Entry Capacity Transfers; and
- UNC Modification Proposal 0151A: Transfer of Sold Capacity between ASEPs.

General views

In summary, CoP is:

- against the implementation of 150 and 151 as proposed by NG NTS; and
- against the alternative proposals 150A and 151A as put forward by E.ON UK.

CoP supports the general principle of an inter-ASEP capacity transfer mechanism. Such a mechanism can, if properly designed, be expected to lead to a more efficient utilisation of the network. However, we believe that any trade and transfer mechanism should allow shippers to optimise their existing capacity rights prior to any possible need to purchase further capacity. Additionally, it is essential that the transfer and trade mechanism is easily understood, mitigates uncertainty, and results in the maximum capacity being made available to the market.

We do not consider that any of the current proposals meet these design objectives. In particular there is a risk that the complexity of the current proposals may result in a lack of shipper participation or inefficient bidding behaviour.

Specific defects against the applicable objectives are set out in more detail below.

UNC Modification Proposal 150 and 150A

- UNC Mod Proposal 150 would not lead to the economic or efficient operation of the system. The processes proposed are slow and inflexible and introduce significant risks as they are temporary. It could also be expected to lead to the overbooking of capacity;
- while 150A should avoid some of these disadvantages, it is not the holistic solution that is required to increase efficiency;
- both proposals can be expected to distort competitive processes within ASEPs; and
- both proposals are complex, raising barriers to entry and potentially increasing cost of supply.

UNC Modification Proposal 151 and 151A

- Shippers would be unable to optimise existing capacity holdings before entering the market for unsold capacity, leading to the danger of inefficient capacity bookings under 151;
- a zonal approach as contemplated under 151A could undermine any locational signal, and distort efficient inter-zonal trades;

- CoP believes that under 151 the considerable uncertainty over the exchange rates could deter shippers from participating in that process, adversely effecting competition between shippers;
- the zonal approach under 151 based on a 1:1 transfer rate within the applicable zone offers a degree of certainty for market participants over volumes and exchange rates, but begs a number of important questions about zonal configurations, which have not been properly addressed; and
- again both proposals are complex, raising barriers for entry and increasing cost of supply.

Process deficiencies

NG NTS agreed in principle, as part of the TPCR, to accept a licence obligation to introduce a transfer and trade mechanism. After a lapse of some considerable time the industry is now being pressed to provide urgent responses to complex, controversial and competing solutions. We are concerned that the very short timescale for both commenting on the proposals, and the intended implementation, means that shippers have little time to fully understand the implications of the proposals and to make preparation for bidding strategies following the current AMSEC auction.

All of these factors point to the need to conduct a thorough impact assessment before any of these proposals are considered suitable for implementation.

It is also not satisfactory that these consultations are being taken forward in advance of finalisation of the relevant licence obligations on National Grid and whilst there is a live consultation on the relevant charging methodology statement.

Please let me know if you have any comments or queries on the contents of this letter.

Yours sincerely,

Kirsten Elliott-Smith