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6<sup>th</sup> December 2006

Dear Julian,

**Re: Modification Proposals 0116V/0116VD/0116A/0116BV/0116CV: “Reform of the NTS Offtake Arrangements”**

ConocoPhillips (U.K.) Ltd do not support the implementation of this Modification Proposals 0116V

ConocoPhillips (U.K.) Ltd do not support the implementation of this Modification Proposals 0116VD

**ConocoPhillips (U.K.) Ltd support the implementation of this Modification Proposals 0116A**

ConocoPhillips (U.K.) Ltd do not support the implementation of this Modification Proposals 0116BV

ConocoPhillips (U.K.) Ltd do not support the implementation of this Modification Proposals 0116CV

Amongst these proposals, we would rank our support for them in the following order: (most supported first). 116 A, 116 CV. As stated above ConocoPhillips (U.K.) Limited (COP) does not support modification 116 CV but views this as the least worst alternative.

Our comments are as follows:

**Extent to which implementation of the proposed modification would better facilitate the relevant objectives**

*Gas Transporter Licence Standard Special Condition A11.1*

(a) *the efficient and economic operation of the pipe-line system to which this licence relates;*

*COP does not accept that the proposed modifications will allow NG to undertake better informed investment decisions in regard to direct connect sites. The modification will only capture incremental capacity as all existing supply points will have evergreen prevailing rights. Currently the ARCA process is used to signal future capacity requirements and this process allows projects to negotiate on a bilateral basis given much needed flexibility.*

*COP also struggle to understand what helpful signals NG will receive at bi- directional sites.*

- (b) so far as is consistent with sub-paragraph (a), the coordinated, efficient and economical operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters;*
- (c) so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;*
- (d) so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition:*
  - (i) between relevant shippers;*
  - (ii) between relevant suppliers; and/or*
  - (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers;*

*COP recognizes that the exit reforms have arisen from the sales of the Distribution Networks and with the desire to treat all offtake points in the same manner. COP does not accept that it is discriminatory to treat DNO's and direct connects differently as the markets for both are essentially different. DNO's are governed by a regulated price control regime and direct connect are exposed to the competitive market. COP recognizes and supports EON UK's work on this subject.*

- (e) so far as is consistent with sub-paragraphs (a) to (d), the provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards (within the meaning of paragraph 4 of standard condition 32A (Security of Supply – Domestic Customers) of the standard conditions of Gas Suppliers' licences) are satisfied as respects the availability of gas to their domestic customers; and*

*N/A*

- (f) so far as is consistent with sub-paragraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code.*

**The implications of implementing the Modification Proposal on security of supply, operation of the Total System and industry fragmentation**

*The introduction of the flexibility product in some of the modifications could discourage plant that is flexible operating in the best capacity for UK PLC. This is as a result of the complex systems and processes that may be involved in changing OPN's etc.*

**The implications for Transporters and each Transporter of implementing the Modification Proposal, including**

- a) **implications for operation of the System:**
- b) **development and capital cost and operating cost implications:**
- c) **extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs:**
- d) **analysis of the consequences (if any) this proposal would have on price regulation:**

**The consequence of implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the Modification Proposal**

**The high level indication of the areas of the UK Link System likely to be affected, together with the development implications and other implications for the UK Link Systems and related computer systems of each Transporter and Users**

**The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk**

**The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non Code Party**

**Consequences on the legislative and regulatory obligations and contractual relationships of each Transporter and each User and Non Code Party of implementing the Modification Proposal**

**Analysis of any advantages or disadvantages of implementation of the Modification Proposal**

**We have identified the following advantages:**

*We support modification 116A as it will allow current exit regime arrangements for direct connects to continue and avoids unnecessary complexity and costs.*

**We have identified the following disadvantages:**

- *Additional complexity and Costs*
- *System changes required*
- *Impact on power plants balancing regime*
- *No arrangement/allowances for power plants operating under the Grid Code – i.e intertrips, forced outages, frequency response.*
- *The tolerance level in a number of the modification is too low. This should be in line with the 3% tolerance level in a sites NEXA*

Yours faithfully

Kirsten Elliott-Smith  
ConocoPhillips (U.K.) Limited