

TOTAL GAS & POWER LIMITED

Mr. Julian Majdanski
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Dear Julian,

Modification Proposal 0125 - “Introduction of new balancing neutrality charge for cost of residual balancer collateral on the OCM”

Total Gas & Power Limited opposes the implementation of Modification Proposal 0125.

Our comments are as follows:

We agree that NG NTS will incur costs from the collateralisation required for its roles as residual balancer and Shrinkage Provider, and that any such costs should be recovered from the wider community

We do not believe that a modification proposal is an appropriate mechanism in which to enable cost recovery however. There will be a disproportionate level of complexity created, and hence cost, in calculating daily collateral. It is our opinion that a substantial portion of the costs incurred from this charge will be from its administration, which is neither economic or efficient.

It would seem more appropriate therefore that these additional costs are recovered via an increase in price control revenue, which can currently be incorporated as part of the current TPCR process.

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;***

Does not apply to this objective

(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;***

Does not apply to this objective

(c) ***so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;***



Does not apply to this objective

- (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;*

We believe that there are more appropriate cost recovery mechanisms and hence do not feel that this modification furthers the relevant objective.

- (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*

Does not apply to this objective.

- (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.*

Does not apply to this objective.

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

No implications identified

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

a) implications for operation of the System:

No implications identified for Transporters.

b) development and capital cost and operating cost implications:

The transporters will pass incurred costs of between £30,000 to £50,000 to the User as a result of this modification.

c) extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs:

This modification attempts to recover costs through the neutrality mechanism as an additional charge to Users. We believe it is more appropriate that these costs should be recovered through allowed revenue, with this charge being incorporated into the next Transmission Price Control Period.

d) analysis of the consequences (if any) this proposal would have on price regulation:

No consequences identified.

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

Placing the obligation on User to provide collateral for the OCM will reduce NG NTS' contractual risk. We do not believe that this modification is the most efficient mechanism, to achieve this.

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

There will be no change in the UK link systems as a result of this modification.

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

The Transporters will recover this cost from User via the balancing neutrality mechanism. This will create additional complexity, and hence costs, for both Users and Transporters. Recovery via normal price control revenue mechanisms would avoid this cost.

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

No implications identified

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

No implications identified

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

We have identified the following advantages:

- None identified.

We have identified the following disadvantages:

- Additional costs incurred due to inefficient recovery mechanism.

The extent to which the implementation is required to enable each Transporter to facilitate compliance with safety or other legislation

Not required for this purpose

The extent to which the implementation is required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence



Not required for this purpose

Programme for works required as a consequence of implementing the Modification Proposal

NG NTS will be required to adjust its Procurement guidelines to take account of the revised cost recovery mechanism.

Proposed implementation timetable (including timetable for any necessary information systems changes)

We have no comments in this area.

Implications of implementing this Modification Proposal upon existing Code Standards of Service

No implications identified

Further Comments

None

Should you wish to discuss our response further, please feel free to contact me.

Yours faithfully

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