

Julian Majdanski  
UNC Modification Panel Secretary  
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**Re: UNC 156/156A**

ConocoPhillips (CoP) is the holder of a gas supplier (non-domestic) licence and a shipper licence. CoP does not support UNC 156 or UNC 156A.

**General views**

- CoP supports the general principle of an inter-ASEP capacity transfer mechanism, but considers that the process needs to avoid creating distortions and unmanageable risks, be easily understood, mitigate uncertainty and result in the maximum capacity being made available to the market. We do not consider that the current proposals achieve these goals and have a number of clear deficiencies;
- we are especially concerned that either of the two proposed mechanisms could be gamed and about the detrimental competitive impacts this would have;
- we consider that the proposal to bring the transfer and trade processes together into a single process and to publish exchange rates ex ante are positive developments relative to previous proposals, but that as a whole the proposals do not represent a full solution and frustrate efficient operation, nor have their implications been adequately assessed;
- there has been no consideration of the potential impact on TO and SO charging; and
- given the radical nature of the changes involved, they should provide a solid basis for developing enduring arrangements. What is the intended relationship with proposed longer-term capacity substitution? How can interactions be assessed?

We offer the following comments in relation to the individual modifications:

**UNC Modification proposal 156**

- CoP are concerned that the proposal represents an incomplete solution and as such could create distortions against the baseline rather than further the efficient operation of the system. Notably an auction will be run only for those ASEPS in a zone where a recipient ASEP has been identified and it applies only to this winter;
- the zonal approach, with the initiation of auctions based on zones and the preference in the bid allocation process given to within zone trades and transfers, raises questions about the potential for distortions to efficient trading and transfers within and between zones, (including ASEPs in zones that are not included in each auction), and about the configuration of zones. A particular example of the scope for gaming that needs to be assessed in this context is the potential hoarding of capacity through the existing auctions and using tactical inter-zonal ASEP transfers to constrain gas being landed by competitors elsewhere in the zone. These issues have not been addressed; and

- it contemplates a complex process which places a significant burden on shippers, so raising barriers to entry, deterring competition and potentially increasing the cost of supply.

### **UNC Modification proposal I56A**

- the proposal has the potential to improve price discovery and transparency relative to UNC I56 but it does not change the basic structure of that proposal and therefore the problems we see with this;
- its differing treatment of different months i.e. October compared to the remaining winter months may seem pragmatic but is inequitable and therefore could create distortions. Any processes introduced should take into account the existing auction processes, and possibly the need to change them, not made to fit awkwardly with them; and
- we consider that multiple bidding rounds should be further considered if the full benefits of change are to be realised but this requires due consideration and proper assessment.

### **Process concerns**

The concerns we raised about timescales for the earlier proposals (I50/50A and I51/I51A) apply even more forcefully to these proposal given they are being fast-tracked. The timescale for commenting on previous proposals was extremely short, and the implementation date proposed by Ofgem gives shippers insufficient time to consider the full implications of the proposal or to prepare bidding strategies.

Given the importance of this proposal—and particularly because it has been presented to the industry so late in the day—we believe that a thorough impact assessment needs to be conducted and the results made available to the market before the proposal is considered suitable as an option for consideration for implementation.

Yours sincerely

**Andrew Murray**