TOTAL E&P UK

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August 24th 2009

Re: Consultation on "The Entry Capacity Substitution Methodology Statement".

Dear Andrew,

Total E&P UK Ltd (TEPUK) welcomes the opportunity to respond to National Grid's (NG) consultation on the Entry Capacity Substitution Methodology Statement.
As a general comment TEPUK supports the principle of a transmission system which is appropriate to demand for entry capacity and which is run in a cost efficient manner. Still we believe that moving capacity away from an entry point may lead to capacity destruction and could potentially be costly to consumers, hence substitution should only be allowed after taking into consideration reasonable and future expected demand for entry capacity.

TEPUK supported the development of the Mechanical Approach along with most industry players, and we were alarmed at the sudden change of direction caused by Ofgem's letter dated July 3rd 2009. We believe that the forthcoming Regulatory Impact Assessment must address all three models and their possible effect on gas and entry capacity prices. We believe this analysis is vital and will highlight which model provides the best cost-benefit balance for industry and consumers.

Although TEPUK **does not** support the proposed Entry Capacity Substitution Methodology Statement, we nevertheless provide our comments on the main risks we see with the proposed Draft Methodology issued for consultation by NG:

Exchange Rates
The Methodology states its intention is to promote the economic and efficient development of the NTS. We believe that removing capacity away from an entry point without regard for the future expected flows at that entry point is not in line with this overriding principle. The methodology proposes an exchange rate of 1:3 which will lead to the destruction of entry capacity and reduction of the NTS. We believe that an exchange rate of 1:1 should apply during the current price control and until there is more

understanding of the risks and any unintended consequences of this new licence obligation.
The draft methodology goes even further, allowing for the subsequent substitution of capacity which has been substituted to an ASEP, if it remains unsold (22.b). We believe that this kind of substitution should only take place on a 1:1 exchange rate, as anything different would allow for the unlimited destruction of NTS entry capacity. As an example, 60mscm at St. Fergus could become 20mscm at Teesside and then 6mscm at Bacton. This can not be considered an economic and efficient development of the NTS, especially considering that any savings will only affect 2% of the consumer's bill.

Held-Back Capacity
The Methodology states that capacity not offered in the QSEC auctions (the 10% held-back) will not be available for substitution. We take this opportunity to highlight how important it is to hold-back some capacity from the QSEC auctions. The last TPCR reduced this amount from 20% to 10% of TO Baseline and we believe that the introduction of Substitution makes it crucial that this 10% is maintained through future TPCR. The Trades and Transfers process does not reduce the need for the 10% holdback as it provides no guarantee that any capacity will be available for trades.

Retention Fee Refunds
We believe that the current drafting of the Retention Fee Refunds (41-49) penalizes shippers who participate long term. If a shipper took a retainer in the 2010 QSEC for 10mscm and then in the 2011 QSEC bought that same volume for flows from 2015 onwards, this shipper would not get a refund under the proposed regime. Limiting the refunds for flows between Oct. 2013- Sept.2014 is detrimental to shippers who get involved ahead of time and goes against Ofgem's favoured shipper behaviour of making long term commitments. We would like to see a system where a shipper buying entry capacity in the 2011 QSEC gets refunded regardless of when the flows take place.

Currently if two shippers take a retainer for 10mscm in the 2010 QSEC, and only one of them buys that capacity in the 2011 QSEC, both of them will get a prorated share refund (47). We believe that it is appropriate to prorate when a third party buys that capacity but if two shippers have retainers and only one of them buys the capacity, this shipper should be refunded the full amount of its fee.

TEPUK and others are currently developing new reserves in the West of Shetland area with gas delivery expected via a pipeline to St Fergus in 2014. With this in mind we are concerned to ensure that any proposal which might substitute entry capacity away from terminals where future gas is expected but for which no long term commitment signal has yet been made takes into account these future gas flows.
We do not believe the Retainer model is appropriate for this and we are disappointed at the way the Mechanical Approach was suddenly discarded ahead of the Impact Assessment.
We believe that before the substitution methodology is finally adopted Ofgem must assess and compare the impact for all three models ("Mechanical", "Two-stage" and

"Retainer"), as this will allow the industry and consumers to ensure that the model which best promotes the economic and efficient development of the NTS is implemented.

Yours sincerely
Iain McCombie
Commercial Operations Manager

(This setter is sent electronically and therefore not signed)

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