TOTAL E&P UK

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NTS GCD 08 - NTS Entry Charging Review

Dear Eddie,
Total E&P welcomes this discussion document and the opportunity to provide our views on this important issue.

For the past eight years we have seen National Grid (NG) face T.O under-recovery year on year due to weak participation in the longer term auctions. We see shippers at certain entry points buy substantial amounts of capacity on the day-ahead and within day auctions, forcing NG to apply ever increasing TO Commodity Charges to compensate for the under-recovery, with the added problem that this charge is smeared across all shippers leading to cross-subsidies amongst shippers and the dilution of cost-reflectivity.

Total E&P UK supports the principle of a national transmission network which is appropriate to demand for entry capacity and which is run in a cost efficient manner. To this end we support the objective of having user commitment as a signal for future capacity requirements. We are concerned that the current entry capacity charging mechanism does not encourage shippers to make long term commitments for entry capacity, thus providing the necessary investment signals to NG, and instead incentivises shippers to wait for the short-term auctions where they can buy capacity at zero or close to zero reserve prices.

After participating actively in the Discussion Workgroups set up at Ofgem during 2009 and 2010 we believe that the most reasonable step towards tackling these problems is to remove the existing discounts on short term auction entry reserve prices and the Licence Obligation on NG to offer capacity at zero reserve price on at least one clearing auction. Taking this first step could help to:

- Stop cross subsidies between shippers and promoting competition
- Have cost reflective prices
- Avoid undue preference in the supply of transportation services by NG
- Complying with EU Regulation 1775/2005

Our responses to National Grid's specific questions:

Q1. Whether the objectives of the review are appropriate, namely to identify any charging methodology and/or UNC modifications required to;
a. Continue to recover allowed revenue while achieving the NTS Licence and EU relevant charging objectives.
b. Maximise the proportion of NTS TO target entry revenue recovered through entry capacity charges.
c. Appropriately incentivise long term booking of NTS Entry Capacity.
d. Appropriately differentiate by price between the NTS Entry Capacity products made available.
e. Incentivise Security of Supply.

We believe that the objectives of the review are appropriate. We believe that maximising the proportion of allowed revenue recovered from entry capacity sales rather than through commodity charges is particularly important.
At the moment NG expects to recover 39% of allowed revenue for 2009/2010 from the sale of entry capacity whilst the remaining 61% will come from the application of the T.O commodity charge. We believe that this is a worrying sign. The T.O commodity charge was introduced as a corrective mechanism which would bridge the gap of any small under-recoveries, but has now become the vehicle through which most of the T.O revenue is collected.
Removing the existing discounts will lead to charges paid by shippers being more accurate and cost reflective of their actual use of the system. It will also avoid the current situation where some shippers (who book entry capacity long term or new entrants) subsidise the use of entry capacity for other shippers (those who wait and buy at zero or discounted prices). Having all shippers pay a cost-reflective price for the capacity they use means NG avoids undue preference in the provision of transmission services which will help competition between existing shippers to the benefit of gas consumers.

The objective of promoting long-term bookings was deemed controversial at the review groups organized by NG and Ofgem. Total E&P believes that there is benefit to promoting long term commitment from shippers, namely the accurate and efficient investment by NG. Over recent years Ofgem has highlighted their preference for shipper commitment and introduced licence changes to promote long term commitment by shippers (reduction of baselines, substitution, reduction of held back capacity from 20% to 10% etc.) In line with these it seems incoherent and perverse to maintain discounts on entry capacity prices closer to the flow date.

It is crucial that those shippers who commit long term are not penalized for doing so, which is the problem of the current system. We believe that entry capacity prices should be cost reflective, and from NG's presentations at the Workstreams we understand that currently this is not the case. Capacity is priced as an anuitized product and unless a shipper buys 365 days worth of capacity the cost-reflectivity requirement, which is also a Licence requirement, is not met. The problem is exacerbated in the short term auctions as they offer shippers the possibility to profile the capacity bought. Removing the discounts and allowing all capacity to be offered at the same reserve price at all auctions is certainly a step in the right direction, but from the Workstreams we understand that more will be needed in order to make charges truly cost-reflective.

Q2. Whether a phased implementation approach, as suggested by the ECRG, is appropriate, with;
a. Phase 1 comprising removal of entry capacity discounts and
b. limiting the release of interruptible capacity to when firm capacity has sold out or is close to selling out.
c. Phase 2 covering further changes in light of experience of phase 1 including the potential re-introduction of price multipliers for daily and monthly capacity.

We believe that the removal of entry capacity discounts and the limited release of interruptible capacity are changes long overdue and urgently needed.
Once this is in place we should start looking at the introduction of multipliers, always in line to achieve cost reflectivity, efficiency and competition amongst shippers.

Q3. Should the 50-50 entry-exit TO revenue split within the Charging methodology be retained or should an increased proportion be allocated to exit with a reduced proportion for entry?
We believe that there is merit in the current arrangement, and any change would need to be widely discussed with the exit shipper community. The current review has focused on entry capacity prices and for this reason exit shippers may have not been much involved.

Q4. Should the TO Entry Commodity charge continue to apply uniformly to all entry gas flow allocations excluding storage and "short-haul"?
This may be an opportunity to review the application of the T.O commodity charge, and understand if it is suitable to have storage and short-haul flows excluded. We certainly want to move away from a system that allows some shippers to obtain capacity for free on the day and also benefit from being except of paying the T.O commodity charge, whilst other shippers are making long-term commitments, paying full price, providing NG with investment signals and paying T.O commodity charge. Promoting cost-reflectivity and competition is paramount.

Q5. Should the prevailing quarterly, monthly and daily entry capacity products, auction timings, and auction frequencies be changed or reviewed?
No, we believe that the availability of auctions works well and we believe in the benefit of phased change, so focusing on the pricing is the best way forward.

Q6. Removal of Discounts
a. Should the discounts that apply to day-ahead (DADSEC) firm daily entry capacity be removed?
b. Should the discounts that apply to within-day (WDDSEC) firm daily entry capacity be removed?

c. Should a revised calculation for day-ahead (DADSEC) and within-day (WDDSEC) firm daily entry capacity apply such that both prices (p/kWh/day) are equal to the rolling monthly auction reserve prices?
d. Should the zero reserve price that applies to daily Interruptible entry capacity (DISEC) be retained?
Discounts should be removed from all auctions and reserve prices should be equal at all auctions for firm entry capacity.
Interruptible capacity prices should indeed reflect the risk of interruption, and if there are still substantial amounts of firm entry capacity unsold we do not believe interruptible capacity should be released at a discount as this would not be cost reflective or promote competition. Only if firm capacity is sold out and there is a risk of interruption should interruptible entry capacity be priced at zero.

Q7. UNC Changes
a. Should the calculation of the Daily Interruptible NTS Entry Capacity quantity released be reviewed?
b. Should Daily Interruptible NTS Entry Capacity at each ASEP be limited to when the firm entry capacity at the ASEP has sold out or is close to selling out?
c. Should the revenue from the sale of within-day obligated NTS Entry Capacity continue to be redistributed via the entry capacity neutrality mechanism?
Yes, the release of interruptible capacity should be reviewed and interruptible capacity released only when most firm has sold out.

Q8. Licence Changes
a. Should the Licence clearing obligation be removed?
b. Should the revenue from the sale of within-day obligated NTS entry capacity continue to be treated as SO revenue or should it be treated as TO
Yes, we believe that many of the recent changes introduced by Ofgem (substitution, baselines reduction etc) make the existing Licence Clearing Obligation on NG clearly incoherent with the rest of the UNC/Licence entry capacity framework.

We are confident that implementation of the discussed measures would better facilitate the Licence Objectives of achieving cost-reflectivity, promoting efficiency and avoiding undue preference.
We trust you will find our comments useful and we remain available for further questions.

Yours Sincerely,

Iain Mccombie
Commercial Operations Manager
Total E&P UK PLC
(This letter was sent electronically and therefore it has not been signed)

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