

Pricing Consultation Document GCM01:

**Alternative Methodologies for determination of the NTS Capacity Prices**

Total E&P UK Plc welcomes the opportunity to provide comments on this pricing consultation paper and supports the work done towards a cost reflective, transparent and stable pricing methodology.

We support Option 1, the Transcost Model. The changes proposed to this model achieve most of the sought after benefits, with out a complete change in methodology.

This option improves the current arrangements by allowing pricing to be dynamic and respond to changes in the system and in supply/demand scenarios but at the same time it keeps its basis on the previous model, so that there is continuity.

Since the introduction of the LTSEC Auctions shippers have been asked to make economic commitments that would signal their needs for entry capacity as far as 17 years ahead. At St. Fergus, Shippers did make this commitment, and it is one of the few entry points where capacity has been bought long term (even as far as 2019-2020). By keeping the current methodology, signals and investment that shippers at this entry point have triggered, will be maintained, supporting stability and predictability, which are central to any pricing methodology.

Several key elements of the UK gas network are being reviewed or undergoing modification at the present time, such as the Exit Reform (with no less than five Uniform Network Code Modification proposals) and the Transmission Price Control Review conducted by Ofgem.

With all this changes occurring at once, and for implementation by April 2007, it is very difficult to have a clear view on how this new proposals will impact on each other, and what the end new system will look like. We would suggest that the only changes that take place are those that are absolutely necessary, and would prefer if the objectives can be achieved through minor modifications to the current system whenever possible.

We believe that this will be widely appreciated by both local and foreign shippers at a time when the UK is dedicated to attracting new gas imports into the country.

A minor change which could have a beneficial impact would be to cease discounted prices for the short-term auctions. The Long Term System Entry Capacity Auctions have been in place for four years now, and we appreciate that at many entry points National Grid has not seen the level of user-commitment that was expected. We believe that the main cause for this is the current discount prices that shippers can find on the short-term auctions ((DSEC day ahead and within day).

The perverse incentive created by these discounts has translated into weak participation in the long term auctions (at most entry points), causing TO revenue under-recovery for National Grid and repeated increases in the TO Entry Commodity Charge for shippers.



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We believe this is not truly cost reflective and welcome National Grid's moves to end the current discounts in all capacity products except for Interruptible Entry Capacity.

We judge that the end to discounted entry capacity prices has to be implemented before any major change in charging methodology is introduced.

Please do not hesitate to contact us for further questions

Yours Sincerely,

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(This letter was sent electronically and therefore it has not been signed)



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