

Tim Davies
Joint Office of Gas Transporters
Ground Floor Red
51 Homer Road
Solihull
West Midlands
B91 3QJ

Gazprom Marketing & Trading Retail Ltd
Bauhaus
5th Floor
27 Quay Street
Manchester
M3 3GY

Tel: 0845 230 0011
Fax: 0845 230 0022

e: enquiries@gazprom-mt.com
w: www.gazprom-mt.com

4th November 2008

Dear Tim

Re: DNPC04 – Methodology for Determining the Balance of Revenue Recovery between LDZ System Charges and Customer Charges

Gazprom Marketing and Trading Retail ("GM&T Retail") wishes to submit the following in response to the above pricing consultation.

Introduction

GM&T Retail understands that the proposed changes are an attempt by the DNs to introduce greater cost reflectivity into their individual transportation charges; in line with the relevant Licence obligations. GM&T Retail is disappointed, however, that the DNs continue to take a piecemeal approach to updating their charging methodologies and as a result seemingly have a desire to cause maximum disruption to the industry. GM&T Retail suggests that the DNs have consistently elected to neglect their Licence obligations to facilitate competition in the shipping and supply markets.

The proposed change will have significant impacts on charges to I&C offtakes, as shown in Tables 3 and 5, and although this maybe justifiable from a cost reflective perspective, the proposed implementation date will damage competition in the shipping and supply markets. The DNs have failed to consider the impacts on shipping and supply businesses which will not be provided with adequate lead times to implement these significant increases e.g. cannot pass through costs on fixed priced contracts, or modify contracts where pass through is not explicitly stated.

In addition, we note that the DNs have elected not to consider the impacts on the IGT businesses, which at best can be excused as an oversight and at worst, as a strategy to undermine competition in the connections sector. We suggest that as a result of this exclusion the consultation paper should be withdrawn and re-submitted when full and proper analysis has been executed.

1. Should the charging methodology be changed so that the balance between LDZ System and Customer charges for each DN is based upon a network specific estimate of the split of relevant costs?

GM&T Retail does not have an issue with DNs setting charges specific to individual cost allocations as long as it can be properly shown that the charges are cost reflective and do not distort competition. The information provided in the document does not permit the industry to conclude that the charges are cost reflective and certainly, we would argue the hurried implementation would be deleterious to competition in both the shipping/supply and connections markets.

2. Should the DNs rebalance the LDZ System and Customer charge each time the level of charges is changed or should DNs rebalance the LDZ System and Customer charges only if the forecast revenue split deviates from the cost reflective target split by more than a set threshold value

Ultimately this is a matter for the DNs to consider, as they are required to discharge their Licence obligations. What is essential, however, is that the DNs consider **all** of their Licence obligations and only introduce changes which do not disrupt competition. As a general rule, any changes which will impact competition should be subject to reasonable time scales, normally a minimum of 12 months to allow the market to respond appropriately.

3. Is there any reason as to why this should not be implemented from 1st April 2009?

For reasons already established the change should not be implemented on 1st April 2009. GM&T Retail recommends that the DNs withdraw this proposal and provide proper cost and competition analysis before future resubmission. In addition, we understand that the DNs are planning to review other related charging methodologies e.g. capacity/commodity split at the customer charge level, and believe that it would be logical to consider implementing these changes simultaneously.

GM&T Retail would not welcome any changes prior to April 2010 as this lead time would be consistent with the aim of facilitating competition.

If you have any questions relating to this submission then please contact me.

Yours sincerely



Glenn Nixon
Customer Support Manager
GM&T Retail