

TOTAL GAS & POWER LIMITED

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Dear Julian,

Modification Proposal 0122V "Restriction of Invoice billing period to Price Control"

Total Gas & Power Limited supports the implementation of Modification Proposal 0122V.

Our comments are as follows:

It is our understanding that this Modification was raised to prevent a specific reconciliation (the reconciliation of the Farningham Offtake error during the period June 1999 - June 2005), covering a time period outside of the current price control.

TGP does harbor some concerns over the handling of the reconciliation process in this case, in particular the time taken between the identifying of the issue and notification to Shippers of the magnitude of the error. We also feel that there should be further investigation into why such an error was not detected for several years, despite repeated visual inspections of the equipment. These concerns notwithstanding our view is that this particular reconciliation is accurate and that the reconciliation amount has been correctly determined.

This modification does not attempt to alter that determination, only to restrict any adjustments to the current price control period. Transporters are incentivised to ensure efficient operation of the network by being exposed to the costs of system maintenance. Costs inefficiently incurred should therefore be borne by the Transporter; allowing an adjustment to settlement dates outside of the current price control, will remove that incentive.

On a more general note, this modification removes any incentive upon the Shipper or Transporters to selectively correct settlement errors to their advantage as any adjustments will adjust the rate of future revenue collection, not financial earnings. This will ensure that any adjustments are resolved promptly and that Users and Transporters are not exposed to unexpected costs.

We note the concern expressed that the cut-off date proposed will not be appropriate when the next price control period commences in 2007. We therefore welcome the Proposer's offer to raise a review proposal to derive an enduring solution.

Extent to which implementation of the proposed modification would better facilitate the relevant objectives

Gas Transporter Licence Standard Special Condition A11.1

- (a) *the efficient and economic operation of the pipe-line system to which this licence relates;*



Does not apply to this objective.

- (b) so far as is consistent with sub-paragraph (a), the coordinated, efficient and economical operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters;**

Does not apply to this objective.

- (c) so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;**

The licensee is obliged to ensure that any costs which are applied to customers are done so in a timely manner and does not result in an inappropriate gain or loss of revenue to either the Transporter or the User. This modification prevents that by restricting any adjustments to the price control period.

- (d) so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/ or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers;**

Limiting reconciliations to within the current price control period will prevent inappropriate costs being levied on Shippers with no corresponding reduction in transportation charges. This will result in appropriate cost-targeting.

- (e) so far as is consistent with sub-paragraphs (a) to (d), the provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards (within the meaning of paragraph 4 of standard condition 32A (Security of Supply – Domestic Customers) of the standard conditions of Gas Suppliers' licences) are satisfied as respects the availability of gas to their domestic customers; and**

Does not apply to this objective

- (f) so far as is consistent with sub-paragraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/ or the uniform network code.**

Does not apply to this objective.

The implications of implementing the Modification Proposal on security of supply, operation of the Total System and industry fragmentation

No implications identified

The implications for Transporters and each Transporter of implementing the Modification Proposal, including

a) implications for operation of the System:

No implications identified for Transporter Networks.

b) development and capital cost and operating cost implications:

The Transporters will be required to develop a series of internal protocols to handle settlement errors, who will incur moderate costs.

c) extent to which it is appropriate to recover the costs, and proposal for the most



appropriate way to recover the costs:

Do not anticipate any costs requiring recovery outside of allowed revenue

d) analysis of the consequences (if any) this proposal would have on price regulation:

There should be no impact on price control regulation.

The consequence of implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the Modification Proposal

These modifications will create certainty that Transporters will not have to process large-scale reconciliations dating back beyond the current price control period, and so be exposed to unrecoverable costs. The level of contractual risk will therefore be reduced.

The high level indication of the areas of the UK Link System likely to be affected, together with the development implications and other implications for the UK Link Systems and related computer systems of each Transporter and Users

As this modification effectively revises the cut-off date for any reconciliations that can be undertaken by the Transporters from 1 February 1998 to 1 April 2002, there should be no system implications from implementation.

The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk

These modifications will create certainty that Users will not have to process large-scale reconciliations dating back beyond the current price control period and so be exposed to unforeseen costs. The level of contractual risk will therefore be reduced.

The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non Code Party

None identified.

Consequences on the legislative and regulatory obligations and contractual relationships of each Transporter and each User and Non Code Party of implementing the Modification Proposal

None identified.

Analysis of any advantages or disadvantages of implementation of the Modification Proposal

We have identified the following advantages:

- Prevents any adjust of revenue for periods outside of the current price control.
- Incentivises Transporters to correct any meter reading errors that occur to avoid loss of revenue.



- Certainty for all parties regarding long term accruals and provisions.

We have identified the following disadvantages:

- The date proposed will need to be adjusted at some point to reflect the new price control period.

The extent to which the implementation is required to enable each Transporter to facilitate compliance with safety or other legislation

Not required for this purpose

The extent to which the implementation is required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence

Not required for this purpose

Programme for works required as a consequence of implementing the Modification Proposal

None identified.

Proposed implementation timetable (including timetable for any necessary information systems changes)

The implementation timetable proposed seems achievable considering the relative simple nature of this change.

Implications of implementing this Modification Proposal upon existing Code Standards of Service

No implications identified

Further Comments

None

Should you wish to discuss our response further, please feel free to contact me.

Yours faithfully

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