

John Bradley
UNC Modification Panel Secretary
Joint Office of Gas Transporters
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Dear John,

**Gaz de France ESS response to:
UNC Modification Proposals 0194 and 0194a**

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Introduction

Thank you for the opportunity to respond to the above modification proposals. Gaz de France ESS supports the implementation of UNC 0194a and does not support the implementation of UNC 0194.

During discussions on previous related modification proposals UNC 0115 and 0115a, which were subsequently rejected by the authority, it was widely accepted that there should be a mechanism developed to apportion some elements of unallocated gas costs which are currently borne solely by RbD participants to the Industrial and Commercial sector. UNC 0194 and 0194a both seek to implement different models, via an allocation table in the UNC, to allow unallocated gas costs to be apportioned more widely.

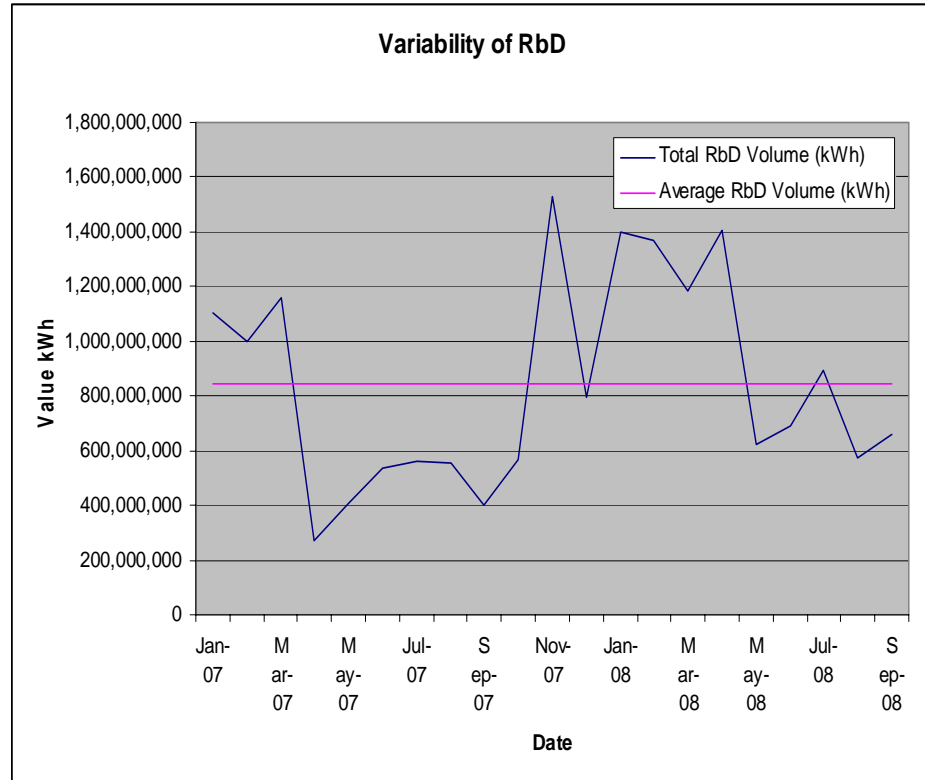
It is important to recognise that further modification proposals have been raised in this area and Gaz de France ESS considers that the whole suite of proposals should be considered by Ofgem on their relative merits before any implementation decision is made in this area. Also, given the magnitude of costs under consideration it is essential that a Regulatory Impact Assessment is undertaken to assimilate the relative benefit of each change proposal.

UNC 0194

The model proposed by British Gas under UNC 0194 seeks to apportion a level of cost to the Large Supply Point (LSP) sector based on the monthly volumes billed via Reconciliation by Difference (RbD).

The table below shows the level of RbD volumes which have been billed to the Small Supply Point market over the previous 18 months.

Chart 1 – Variability of RbD



As can be seen from the table, the level of RbD is variable and unpredictable. Volumes have been seen to vary from the mean of around 800GWh frequently and significantly. In December 2007 the variance was close to 100% at a value of nearly 1,600GWh. This is entirely to be expected from a mechanism whose primary objective is to reconcile errors in initial allocation. Such a mechanism can be expected to produce such erratic results as illustrated above.

Over time RbD has developed to perform a secondary function which is effectively to allocate the costs of certain types of pollution. These items of pollution are the areas which have been identified as elements in the allocation table and include unidentified theft of gas and late registrations. It is clear that such items are not variable or erratic in nature when viewed from an industry perspective. Volumes and costs arising from such pollution are generally constant in their both their overall presence and nature.

UNC proposal 0194 is flawed there in it's approach. By allocating volumes and costs via a portion of the monthly RbD pot, it introduces unnecessary volatility and risk to LSP shippers instead of a fair and reflective representation of any pollution caused by this sector.

UNC 0194a

UNC 0194a proposes that any identified costs appropriate to the LSP sector are allocated on a fixed annual volume basis. This model is simpler compared to 0194 and works in a manner similar to that of DN shrinkage. This seems appropriate as the most significant polluting items i.e. unidentified theft do not vary substantially with throughput, and more importantly they do not bear any correlation to the level of “pure reconciliation” which drives RbD volumes.

Using the graph above as an example, annual volumes for the LSP sector could be set to a proportion of the mean RbD volumes over a given period. This allows suppliers in the Industrial and Commercial sector to be in a better position to price and hedge risk in their forwards contracts with customers.

Relevant Objectives

Both UNC 0194 and 0194a deal only with apportioning costs between SSP and LSP shippers and as such the only relevant objective to address under this proposal is A11.1 d “securing effective competition between relevant shippers and suppliers”.

As stated above, 0194 introduces unnecessary volatility and risk to LSP shippers via an inappropriate method. This allocation method disproportionately damages competition between sectors. Shippers who are active in both the SSP and LSP sectors will benefit unfairly from this change.

Many Industrial and Commercial only shippers do not currently receive RbD invoices as all their portfolio is reconciled on a meter point by meter point basis. These shippers face the costs of the individual meter point reconciliation regime, plus added costs from RbD, without the significant benefits associated with RbD gained by the SSP sector.

UNC 0194 will act as a barrier to new entry and discourage participation in the LSP sector as it adds complexity and risk.

UNC 0194a furthers relevant objective A11.1 d “securing effective competition between relevant shippers and suppliers” by allowing a mechanism which could better apportion costs between market sectors therefore improving the position against the current baseline. 0194a allows for cost apportionment without forcing LSP shippers to be exposed to the volatility and variability of RbD and is therefore preferable when compared to 0194 as proposed by British Gas.

I trust this information is helpful and if you have any questions or would like to discuss further, please do not hesitate to contact me on 0113 306 2104 or mobile 07733 322460.

Yours sincerely

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