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By email: enquiries@gasgovernance.com

Dear Tim

Re: Total Gas and Power response to Modification proposals 0194 and 0194a

Total welcomes the opportunity to respond to the two modification proposals 0194 its alternative 0194a. However, Total believes that modifications 0229 and **0232** should also be considered when considering the merits of modifications 0194/0194a and that a **RIA is undertaken on this important change**. These modifications potentially have huge impacts on the Large Supply Point (Industrial and Commercial Market), and if not managed correctly, could have serious consequences on the number of I&C retail businesses operating in this sector.

Putting modifications 229 and 232 to one side Total strongly supports 0194a. **It does not support, in any way, modification 0194.**

1. The Modification Proposal

Both modifications attempt to address the same issue; the allocation of unidentified gas to the Large Supply Point (LSP sector). At present all unidentified gas is allocated to Smaller Supply Points (SSPs) through the RbD process and not on a volume basis. Total believes that it might be appropriate to apportion some costs associated with unidentified gas to the LSP sector; however, at this juncture it is not clear as to the level of those costs. Indeed, the premise for Modification 0194 is that RbD is not operating correctly and that this is evident from the results produced through the RbD verification process. It is our view that the verification results in no way suggest that the process is not operating effectively as the level of error is consistent with traditional normal distribution sampling error (measured at 95% confidence levels). It is completely onerous therefore to assert that RbD is not working and that any error should be apportioned across the two sectors. This will succeed in undermining RbD and lead to an allocation of costs which is wholly unrelated to the root causes of those costs being incurred.

We should be reminded that the principal reason for RbD is to correct the initial allocation in the LSP market, which is simply an estimate. Subsequent reconciliations, as a result of actual meter reads in the LSP sector, then correct this initial allocation and force gas, the RbD Volume, to flow between the LSP and SSP sectors. This gas can flow in either direction.

It is undisputable that the majority of this gas is simply the RbD mechanism working correctly, correcting for the differences between actual consumption and deemed consumption, the deemed consumption being allocated on standard profiles that do not take into account the diverse nature and actual consumption profiles of the LSP sector. Contrast this with the homogeneity of the SSP sector where size and consumption profiles offer minimal variation

Modification 0194 attempts to allocate a percentage of RbD back to the LSP sector, but this is fundamentally flawed as we have just established that the majority of this gas is actually flowing, not because the gas is unallocated, but principally because it is correcting the initial estimated allocation in the LSP sector based upon subsequent actual meter reads. To the contrary, unallocated gas has nothing to do with the RbD Volume flowing between the two sectors, but is a consequence of the SSP sector not being reconciled to actual consumption.

There is **no direct correlation** between the RbD volume and the root causes of unallocated gas. Month on month the RbD volume varies considerably, pushing volume between the sectors in both directions. Consider orphan sites, for example, one of the root causes for the error cited in Modification 194. The numbers of orphan sites do not increase and decrease month on month and they certainly do not put gas into the system when there is a net flow of gas from the SSP sector to the LSP sector. This is the mechanism that Mod 194 is suggesting and therefore, defies logic.

A further consequence of this unallocated gas linkage to RbD Volume is the perverse incentives it creates to rectify the root causes. Taking theft as an example, if theft was reduced by half in the I&C sector, then under Modification 0194, the percentage allocation to the I&C sector would also be reduced by half. It does not follow however, that the payment made (or credit received) by the I&C sector would also be halved (leaving aside the cost of gas). In fact, the payment made could increase because the principal reason for gas flowing is the accuracy of the initial estimation which is a function of the estimation profile and Annual Quantity.

The final impact of Modification 194 would be to create a huge level of risk in the LSP (I&C) sector. The levels of RbD vary significantly on a daily and monthly basis and making it very difficult for the LSP sector to cost this risk. This is particularly stark for I&C suppliers due to the more unpredictable nature of customers' consumption patterns e.g. counter-seasonal, weekend and holiday deviations etc... Such a risk Total believes will be a barrier to entry in to the I&C market, particularly at the levels indicated by Centrica (20% of RbD, £60m). At this level, the impact on the current LSP community will also be significant and cannot be understated, particularly if there is no obvious way of recouping such costs. Total, however, strongly disagrees with these numbers highlighted by Centrica.

It is more appropriate that any unallocated gas is applied to the LSP market in a consistent and predictable fashion, with the level of allocation directly proportional to the root cause and which can be amended when new evidence becomes available - Mod 194a.

However, Total are mindful that two additional modifications, namely Modification 0229 and Modification 0232, also directly address this important issue. It therefore seems premature to consider these modifications in isolation, considering the materiality of the change. Considering them in isolation creates a risk that multiple changes will be raised to the UNC over an extended timescale as the optimum

solution is sought. Furthermore, considering the ramifications for the LSP (I&C) sector, Total believes Ofgem must carry out a RIA.

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

Standard Special Condition A 11.1 (a): the efficient and economic operation of the pipe-line system to which this licence relates;

Modification 0194 leads to arbitrary cost allocation to the LSP sector, leading to potential cross-subsidies of the SSP market. It will therefore not incentivise good practice and will not reduce any of the root causes relating to unallocated gas. It does not further this objective.

Modification 0194a will provide predictable and definite cost allocation. This will encourage good practice by Shippers who will have the certainty that reductions in unallocated gas in the LSP market sector will positively impact their business. This can be expected to improve the efficiency of the pipeline as losses are reduced, hence furthering this objective.

Standard Special Condition A 11.1 (b): so far as is consistent with subparagraph (a), the coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters;

Total does not believe that implementation of these Proposals will better facilitate this relevant objective

Standard Special Condition A 11.1 (c): so far as is consistent with subparagraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;

Total does not believe that implementation of these Proposals will better facilitate this relevant objective

Standard Special Condition A 11.1 (d): so far as is consistent with subparagraphs (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;

Modification 0194 will be detrimental to competition in the LSP sector as it allocates a fluctuating level of gas to the LSP market that bears no relation to the size of root cause. In addition Modification 0194 is detrimental to competition as it will squeeze those suppliers purely in the I&C market, whereas for those suppliers in both the LSP and SSP markets, any cost will be offset by a benefit. We would confidently predict that the implementation of Modification 0194 would likely remove "niche" I&C suppliers from the marketplace.

Modification 0194a will result in a better and more stable allocation of costs, hence ensuring competition as Shippers will be able to have a degree of control over future costs incurred. As Shippers can better manage the allocation risk, the price impact on LSP customers will be ameliorated.

Standard Special Condition A11.1 (e): so far as is consistent with subparagraphs (a) to (d), the provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers;

Implementation of either proposal would not be expected to better facilitate this relevant objective.

Standard Special Condition A11. 1 (f): so far as is consistent with subparagraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code;

Implementation of either proposal would not be expected to better facilitate this relevant objective.

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

No implications on security of supply, operation of the Total System or industry fragmentation have been identified.

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

a) Implications for operation of the system

Total does not believe that implementation of these Proposals will present such implications.

b) Development and capital cost and operating cost implications

Total does not believe that implementation of these Proposals will present such implications.

c) Whether it is appropriate to recover all or any of the costs

No cost recovery would be necessary.

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

Total does not believe there would be any consequences on price regulation from the implementation of these Proposals.

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

No such consequence is anticipated.

6. The development implications and other implications for the UK Link System of the Transporter, related computer systems of each Transporter and related computer systems of Users.

Modification 0194 will require the extension of RbD processes to the LSP market. We expect there to be significant costs in adjusting settlement processes to facilitate this. In contrast Modification 0194a does not require any significant system adjustment.

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

a) Administrative and operational implications (including impact upon manual processes and procedures)

No such implications have been identified.

b) Development and capital cost and operating cost implications

No such costs have been identified.

c) Consequence for the level of contractual risk

Both 0194 and 0194a will increase contractual risk to the LSP sector, though the level of risk is significantly higher with 0194. The overall level of risk is dependent upon the values placed on the root causes which has yet to be defined.

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

Both Modification 0194 and 0194a will assign additional gas consumption to LSPs, resulting in additional costs. Modification 0194 will assign significant, varying levels of gas to LSP consumption, potentially resulting in large and unpredictable costs. A significant proportion of those costs will be due to SSP consumption.

Modification 0194a does create additional costs to LSPs, but in a predictable and equitable fashion, limiting such costs to unallocated gas from the LSP Sector.

9 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

There is currently no mechanism in place for I&C shippers to pass on these additional costs. There is no facility within our IT systems to bill this out, assuming there are contractual clauses in place to do so, which there are not. This is of course assuming that you know what the costs are, which are not apparent in either proposal, although the risk in 0194a is significantly less than 0194.

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

a) Advantages

Modification 0194

None identified.

Modification 0194a

This Proposal establishes a link between the costs and root causes. It creates a clear and simple framework to allow consideration of the levels of unallocated gas to be allocated to LSP sites and reduce the probability of cross-subsidy between market sectors. The allocation process is also easy to administer and allows Shippers with LSP portfolios to procure additional gas to cover these losses without incurring excessive costs.

b) Disadvantages

Modification 0194

The Proposal uses the existing RBD Volume as the basis for reallocation of unidentified gas, but this volume has no relationship with the root causes identified. Allocation using this model will lead to misallocation between the LSP and SSP markets.

Modification 0194a

Whilst significantly better than 0194, the modification still provides risk to the LSP Sector as there is still a price factor that will provide some level of uncertainty and there is currently no mechanism in place to pass this on to the end user. Contrast this with 0232, which resolves this issue.

Yours sincerely

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