



Tim Davis
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Dear Tim

Re: Modification Proposal 0194 - Framework for correct apportionment of NDM error and 0194A - Framework for correct apportionment of LSP unidentified gas

Thank you for the opportunity to comment on the above proposals relating to the financial apportionment of unidentified gas from the LSP sector. Corona Energy (CE) supports modification 194A but does not support the British Gas Trading (BGT) raised modification 194.

CE believes it is vital that all gas suppliers are able to compete efficiently and effectively on a fair and transparent basis. It is also part of a shippers' duty of care to its customers to avoid passing costs through that are unfair and arbitrary. CE are therefore extremely concerned by the changes proposed under modification 194 which we believe will not only lead to substantially increased bills to Industrial and Commercial (I&C) customers but will also substantially impact on competition in the SME sector.

Based on a twenty five percent share of the RbD smear, these changes are estimated to add around £75m to the annual bill of the I&C shippers. Due to the nature of these charges, I&C shippers would find it difficult to pass-through these charges to consumers which would leave the majority of I&C shippers unprofitable. CE therefore believes it is essential that if Ofgem are minded to implement the 194 proposal, that they first conduct a Regulatory Impact Assessment. This will ensure that the full impacts of any decision including the destructive affect it will have on competition are completely understood prior to a decision being made by the authority.

The purpose of these charges is to compensate the domestic gas companies for theft or other such missing gas contributed by I&C businesses. CE believes however the mechanism proposed by BGT is designed to reduce the entire exposure faced by domestic shippers to the RbD mechanism and not just their exposure to unidentified gas. By contrast, the mechanism proposed in proposal 194a is clear, transparent,



predictable and ensures that only appropriate charges are targeted at the correct parties maintaining a level playing field across the industry.

CE believes the changes proposed in modification 194 will substantially impact on the business model operated by most specialist I&C suppliers active in the market today. Ultimately, this will provide the 'big six' domestic businesses with an unfair advantage which may lead to the demise of many of the I&C specialist gas suppliers. This would leave the majority of the I&C market dominated by the same 'big six' gas suppliers that currently dominate the domestic market.

The 194a proposal provides a more appropriate way to solve the issues in question. It recognises that the I&C market should make a contribution in recognition of the level of unidentified gas the LSP market generates. Proposal 194a achieves this in a clear, transparent and predictable way and avoids the market distortions that proposal 194 creates.

I trust these comments are helpful. If you have any queries regarding this response please contact myself or Richard Street on 0208 632 8169.

Yours,

Matthew Gray*
Managing Director
Corona Energy

*please note as this letter has been delivered electronically a signature will not be attached