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2nd May 2009

Dear Tim

**SUBJECT: Gazprom Marketing and Trading –Retail consultation response to
Modification 0229**

Gazprom Marketing and Trading-Retail (GMTR) supports the implementation of modification 0229.

1. The Modification Proposal

This modification looks to allocate a proportion of unidentified gas to Large Supply Points (LSPs), using an independent expert to determine the appropriate volumes. At present all unidentified gas is allocated by default to Smaller Supply Points (SSPs) through the RbD process. Though this feature of RbD has been accepted by SSP suppliers as an acceptable position to avoid more the cost of a more complex system, Gazprom Marketing and Trading - Retail believes that this is unfair and that the portion of unidentified gas that is due to the LSP market should be allocated to that sector.

Any allocation process must be proportionate and accurate, owing to the contentious nature of any final value, representing as it does a significant business cost or benefit to the individual Shipper. It is therefore appropriate that any unallocated gas to be applied to the LSP market sector is as the result of a robust and independent assessment carried out by a neutral third party.

Furthermore, it is of especial importance to balance the need for Shippers to have a level of control over any expert that is appointed, and their independence from any undue influence from any one Shipper. This modification achieves this by proposing a detailed process for undertaking the tender, with the appointment of a third party under the control of the UNCC, but the final contract with the Transporters. As the Transporters are not affected by this energy reallocation, they should not bear any liability for this process and it is correct that the modification seeks to provide that protection.

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In addition to the merits of an independent process, a further benefit of this modification is that it allows market developments (such as Smart Metering) to be taken into account in future calculations, and so will provide an incentive on Shippers to reduce the instances of unidentified gas to the general benefit of consumers.

2. User Pays

a) Classification of the Proposal as User Pays or not and justification for classification

We agree that this modification should be classified as User Pays.

b) Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification

As all Shippers, whether they supply predominantly SSP or LSP sites, will be affected by the change we contend that costs should be applied to all Shippers which have a Supply portfolio. We would contend that costs should be applied in proportion to the number of customers a Shipper supplies.

c) Proposed charge(s) for application of Users Pays charges to Shippers

We have not yet seen detailed costs, so we cannot comment in this area.

d) Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from xoserve

We have not yet seen detailed costs, so we cannot comment in this area.

3. 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;

We do not believe that implementation of this Proposal will better facilitate this relevant objective

Standard Special Condition A 11.1 (b): so far as is consistent with sub-paragraph (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;

We do not believe that implementation of this Proposal will better facilitate this relevant objective

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

We do not believe that implementation of this Proposal will better facilitate this relevant objective

Standard Special Condition A 11.1 (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;

This modification will allocate costs to each market sector more accurately, hence furthering this objective.

Standard Special Condition A11.1 (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... are satisfied as respects the availability of gas to their domestic customers;

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

Standard Special Condition A11. 1 (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;

The process that is proposed will create a fair and transparent process within the UNC for the allocation of unidentified gas to the LSP sector. This modification will therefore further this objective.

4. 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.

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

a) Implications for operation of the system

We do not believe that implementation of these Proposals will present such implications

b) Development and capital cost and operating cost implications

The AUGÉ contracting process will require transporters to incur some limited costs in administration. We would expect those costs to be recovered along with the cost of contracting with the AUGÉ.

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

The contract costs for appointing the AUGÉ will need to be recovered outside of the User pays framework, as such costs are not covered by that process. We would consider it appropriate to recover these costs using the same methodology derived for the costs covered by the User Pays process, i.e allocating costs in proportion of customers supplied.

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

We do not believe there would be any consequences on price regulation from the implementation of this Proposal.

6. 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.

The tendering process proposed ensures that the Transporters have no liability when contracting with the AUGÉ. Therefore, no such consequence is anticipated.

7. 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

The UK link system will require a minor change to allow unidentified gas charges and payments to be handled.

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

a) Administrative and operational implications

There will be a limited amount of additional costs to Users in handling the reallocation of unidentified energy, including passing through any savings or costs to Customers.

b) Development and capital cost and operating cost implications

Some Shippers may need to adjust their processes to handle the reallocation of unidentified gas.

c) Consequence for the level of contractual risk

This process will create a predictable volume of gas that can be contracted for by Shippers, so there is no increase in wholesale contractual risk. In retail, there will be a requirement to ensure that costs incurred in the reallocation to energy to LSP sites can be appropriately passed through. This should be relatively straightforward and so we do not anticipate any increase in contractual risk.

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

This modification will remove the unfair current cost allocation to SSP sites of unidentified gas attributable to LSP sites, so benefiting consumers as a whole.

10. 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

No implications identified.

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

a) Advantages

We agree with the proposer that this modification will:

- create a clear and simple mechanism to allow levels of unidentified gas to be allocated between LSP Shippers;
- retain a level playing field between all Shippers whether LSP/SSP by ensuring there are no unintended cross subsidies;
- provides a transparent and objective framework that will allow the magnitude of unidentified gas volumes to be determined by an independent third party;
- maintain the separation between the LSP and SSP markets;
- allow future market developments to be taken into account when developing modifications.

b) Disadvantages

This process will create minor additional costs to the industry, compared to the current inequitable system.

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

This modification is not expected to facilitate this objective.

14 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

This modification is not expected to facilitate this objective.

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

There will be a requirement on xoserve to adjust their billing and invoice systems for this reallocation of energy costs to be achieved. We would expect the work to be comparatively minor however, as the changes will not affect core systems or settlement processes.

16 Proposed implementation timetable (including timetable for any necessary information systems changes and detailing any potentially retrospective impacts)

We agree with the proposer that implementation can be immediate to enable the tender process to start as soon as possible.

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

No implications of implementing this Modification Proposal upon existing Code

Standards of Service have been identified.

I trust these comments are helpful. If you have any queries regarding this response please do not hesitate to contact me directly on 0161 838 9533.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Glenn Nixon', with a long horizontal flourish extending to the right.

Glenn Nixon
Head of Operations
GM&T Retail