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Dear Tim

**SUBJECT: Gazprom Marketing and Trading –Retail consultation response to
Modification 0244, 0244a, 0244b**

Gazprom Marketing and Trading-Retail supports the implementation of modification 0244 and does not support the implementation of modification 0244a and 0244b.

1. The Modification Proposals

The original modification seeks to introduce a process to allow Customers who have DM Sites to reduce their AQ, SOQ and BSSOQ to reflect current Supply requirements, without having to isolate the site. In contrast, the alternate modifications will allow Customers to only reduce their SOQ at certain times, and subject to providing the transporters with detailed information.

Current Regime

At present Customers can only signal a significant reduction in gas requirements at certain points in the gas year, resulting in a considerable delay in their true needs being registered (in some scenarios up to 18 months) and significant costs being incurred.

Similarly, transporters are also constrained in their treatment of such sites. The current regime either requires transporters to maintain unnecessary infrastructure to supply that site with gas it will not require or, in the event of withdrawal, lose any visibility of potentially significant offtakes that may resume gas consumption at relatively short notice. Neither scenario is conducive to an efficient or cost-effective network, and is likely to increase operating costs in managing the network with inaccurate data as well as assets becoming stranded.

We would contend that these issues are an unforeseen consequence of the reforms undertaken to the gas market in recent years. Prior to the reforms of the interruption regime introduced in 2008, Customers who had DM sites were able to remain connected, yet not be exposed to significant costs for doing so, by electing to become interruptible. This process would also have

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the benefit of indicating to transporters quickly and efficiently the current requirements of any one site, enabling effective network operation.

In addition, the movement to a 95:5 capacity:commodity charging regime has exacerbated the issue, and is leading more customers to consider isolation as the only option to avoid excessive costs. Isolation is an involved and expensive process, which is difficult to easily reverse, may deter customers from re-connecting to the network and so should not be used for temporary cost management purposes.

Effect of Proposals

In light of these industry changes, it seems appropriate that the direct process used by NDM LSP site to avoid such a radical and time consuming process as isolation is extended to DM sites. Allowing the customer to reduce their AQ,SOQ and BSSOQ to levels they see appropriate ensures that costs are appropriately targeted and provide current, accurate information to the transporters to be used in network planning and operation. Restricting the reduction process to the SOQ only, and excluding vacant sites, or restricting the process to the Capacity Reduction Period will not achieve the aim of the original modification; the reduction of unnecessary costs to Customers, the avoidance of isolation from the system as well as providing accurate information to the transporter.

Allowing temporarily vacant sites to remain registered with the transporter also ensures that a Shipper maintains responsibility for the site, with the attendant requirements to, amongst others, validate meter readings when received from the transporters, visit the site when required and maintain a dialogue with the customer. This will reduce the likelihood of the site recommencing gas consumption without a registered Shipper. The alternate modifications, which prohibit vacant sites from reducing their consumption to zero or build in significant time delays, leave the customer in many cases no option but to isolate from the system. This will ensure that sites are removed from the network's visibility, with all of the attendant risks of unauthorised reconnection and short term connection problems that entails.

We do recognise the possibility that the process proposed by the original modification could be used by customers to avoid paying legitimate costs, but believe that the safeguards for retrospective billing of avoided transportation costs will deter such activities. We would note that the ratchet regime will still operate and this will help deter inappropriate activities. Transporters will also have timely metering information on any DM site which has had a reduction, and so will easily be able to spot usage by such sites. As customers will have already provided the Shipper with sufficient information to ensure that the reduction submission is in accordance with their licence obligations, it does not seem necessary to place additional administrative burdens and transporters to concur with this view.

Despite the transporter having a veto on whether the load on their networks can be accurately reflected by an SOQ reduction, the alternate modifications do not provide adequate safeguards against such activities, and merely provides a requirement for a written submission on whether such a reduction is justified. Any customer or Shipper intent on manipulating the system is unlikely to not provide such a written assurance considering the benefits it can accrue in doing so. The alternate modifications therefore seem to create administrative process for little gain, compared to the original modification.

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 0244 will allow customers, through their Shippers, to provide accurate and timely information on their gas requirements to the transporters, improving the information available for network operation. This will promote efficient and economic operations of the pipe-line system and so further this objective.

Modification 0244a excludes vacant sites from using this process, which will need to either withdraw from the system or be obliged to pay excessive system costs for a considerable period of time. The transporters will either lose sight of a significant offtake that may reconnect with short notice, or have an unrealistic view of the demand on its network. Both scenarios will result in inefficiencies and unnecessary costs being incurred by the networks, so not furthering this objective.

Modification 0244b will not allow Shippers to provide accurate and timely information to the transporters as it limit the times to which this information can be provided to a set window in the winter of each year. This may mean that a site has an unnecessarily high SOQ for a considerable period, during which time the transporter will need to maintain system capability. This modification does not further this 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;

If the DNOs have a more accurate view of the gas transportation requirements on their networks, they in turn will be able to provide the NTS with more accurate demand forecasts and capacity bookings. Modification 0244 will help provide this information and so promote efficient and economic operation of the pipe-line system as a whole, hence furthering this objective.

Modification 0244a does not further this objective as it does not allow Customers in certain circumstances (such as temporarily vacant sites) to provide accurate demand information. Similarly, Modification 0244b only allows Customer to provide this information at certain times, hence creating unnecessary delay in this information being provided, so not furthering this 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 agree with the proposer of modification 0244 that the transporters are obliged under Standard Special Condition A5.5 to develop a charging methodology that reflects the costs incurred. The current regime obliges Customer to pay charges on historic information that does not reflect actual usage. Allowing Users to pay charges based on their current usage will therefore further this objective.

As stated before, both Modifications 0244a and 0244b do not allow such information to be provided in a timely manner to the transporters and so does not further this 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;

Modification 0244 will ensure accurate capacity costs are targeted at the correct sites, reducing any cross subsidisation that would otherwise occur, be beneficial to competition and hence further this objective. Modifications 0244a and 0244b do not achieve this by unnecessarily restricting when and how Customers can reduce their capacity requirements and so does not further 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 these proposals 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;

Implementation of these proposals 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

Modification 0244 will help improve the accuracy of information on system and site demand to transporters will help network planning and operation and so enhance efficiency. Modifications 0244a and 0244b places restrictions on when such information can be provided and so does not represent a notable improvement over the current regime.

b) Development and capital cost and operating cost implications

As this process is extending the current operation undertaken by the transporters with regard to NDM LSP sites, we do not believe that these modifications will result in material costs being incurred.

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

As we expect the costs of these changes to be modest, we do not believe that additional cost recovery is required.

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 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 consequences are 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

There will be a requirement with Modification 0244 to extend the current process used for NDM LSP sites to DM sites, but we anticipate this not to be a significant change. Likewise we do not anticipate that Modification 0244a, 0244b will require significant system development.

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)

Shippers will need to develop processes to submit requests if required to by their customer, but we do not believe this will be a significant requirement.

b) Development and capital cost and operating cost implications

No such costs have been identified.

c) Consequence for the level of contractual risk

If Shippers cannot provide accurate AQs, SOQ, BSSOQs to the transporters then they may be viewed to be in breach of Standard Licence Condition B3, which is the requirement to provide accurate information to the transporters. Modification 0244 helps remove that risk, but the restrictions placed by Modification 0244a, 0244b means that those modification proposals do not.

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

With Modification 0244 consumers will be able to indicate their current gas requirements to the transporters, hence avoiding unnecessary costs without having to isolate themselves from the system. Modifications 0244a and 0244b prevent them from doing so in all circumstances.

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

We do not anticipate any such consequences.

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

a) Advantages

Modification 0244

- Ensures that customers pay appropriate costs and that such costs are correctly targeted.
- Provides transporters with accurate and timely information on likely gas demand on their networks.
- Provides a pragmatic solution to an issue that will otherwise compel Customers to incur significant, unnecessary costs or isolate themselves from the network.
- Reduces the possibility of sites consuming gas without a Shipper being appointed.

Modification 0244a

- Allows some customers pay appropriate costs.
- Provides transporters with better information on likely gas demand on their networks in some circumstances.

Modification 0244b

- Allows customers pay appropriate costs eventually when capacity is reduced during the capacity window.
- Provides transporters with better information on likely gas demand on their networks in circumstances when corrected capacity requirements are applied after the Capacity Reduction Window.

b) Disadvantages

Modification 0244

None identified

Modification 0244a

- Introduces unnecessary discrimination between applications for capacity reduction, based on reason for reduction with certain types of customers paying inappropriate costs as they cannot reduce their capacity.
- Do not remove risk that Customers will isolate from the network and then wish to reconnect at short notice.
- Prevents transporters from receiving more accurate information on likely gas demand on their networks in a timely manner.

- Creates unnecessary administrative processes as Shipper confirm to the transporters the reason why such a site requires a capacity reduction in accordance with the Shipper's licence condition.

Modification 0244b

- Customers will be required to incur inappropriate costs for considerable lengths of time as they wait for the Capacity Reduction window to open.
- Do not remove risk that Customers will isolate from the network and then wish to reconnect at short notice.
- Prevents transporters from receiving more accurate information on likely gas demand on their networks in a timely manner.
- Creates unnecessary administrative processes as Shipper confirm to the transporters the reason why such a site requires a capacity reduction in accordance with the Shipper's licence condition.

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



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