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05th November 2009

Dear Tim

SUBJECT: Gazprom Marketing and Trading –Retail consultation response to Modification 0255, Publication of Objection Rates for LSP Supply Points

Gazprom Marketing and Trading-Retail (GMTR) supports the implementation of modification 0255.

1. The Modification Proposal

As proposer of this modification, we would like to add some further comments in response to queries that have been raised at various UNC meetings.

We have been grateful to the Transporters in providing some limited additional analysis on what the report would entail, which we have reproduced below. It should be noted that some of the information originally presented will not be included within the report if published. For example, the modification does not suggest that the absolute number of objections submitted by each shipper should be published, as this is commercially sensitive. In addition the report will not be anonymous, but will detail Shipper Licence Codes.

SSC (Incumbent)	% of Objections Not Cancelled	% of Objections Cancelled
A	94.69%	5.31%
B	96.67%	3.33%
C	97.58%	2.42%
D	98.92%	1.08%
E	98.32%	1.68%

F	98.58%	1.42%
G	96.90%	3.10%
H	98.70%	1.30%
I	68.33%	31.67%
J	90.35%	9.65%
K	99.07%	0.93%
L	100.00%	0.00%
M	100.00%	0.00%
N	100.00%	0.00%
O	44.44%	55.56%
P	100.00%	0.00%

Source: WWU presented at October Workstream

This sample demonstrates the value to the industry which such a report will give. In this report it is clear that Shippers I and O have, for the quarter shown, a much higher objection rate than that of other Shippers. While this may be due to unique circumstances in this quarter, as this report will be regularly published, it will allow a pattern of objection rates to emerge. It will soon become obvious which Shippers raise large numbers of unnecessary objections, so creating additional work for their competitors and ultimately impeding market competition. Publically highlighting this will have two positive benefits.

Firstly there will be a natural incentive on those Shippers who have high objection rates, which are out of line with those of its competitors, to reduce the number of unnecessary objections submitted, to avoid drawing attention to themselves. Secondly it will obviate the need for Shippers to contact the regulator regarding alleged abuse improper use of the objection process. In summary publishing Shipper Licence Codes against their objection rates create a self governance regime, avoiding any form of incentive framework. For this reason, we are committed to the notion that these reports should be explicit in naming the objection rates for Shipper entities.

We would also like to provide some further information on our thoughts regarding the funding of this proposal. The modification is straightforward and easy to implement by the Transporters. The limited high level cost information provided by the Transporters, indicating a low cost of £4,000-26,000, seems to bear this out. It is our understanding that the implementation costs will be significantly reduced if this report is included within the xoserve Information Provisions project. We would like to stress that we have had no additional information from the Transporters regarding cost or implementation timescales, outside of that publically presented at the Distribution Workstream, and so cannot comment on what the final cost will be if the proposal is implemented outside of this project.

Owing to the low cost that is proposed for this modification, we believe that the costs incurred by both Shippers and Transporters in undertaking any recovery under the User Pays mechanism, will be greater than the absolute sums recovered. We therefore still believe it will save the

industry (and ultimately the consumer) money if this modification does not attempt to recover costs from Shippers.

2. User Pays

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

We still contend that the modification does not require a User Pays Classification, as it does not seek to recover costs incurred.

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

It does not seem economical for the relatively small level of costs that have been quoted (£4,000 to £26,000) to be recovered from the Shipper under the User Pays Mechanism and so this modification should not be classified as User Pays.

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

We do not believe a User Pays charge should be applied to Shippers in this instance.

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;

The information that has been provided by the Transporters (see above), reinforces our belief that publication of this information will encourage appropriate use of the objection mechanism by Shippers so reducing the level of unnecessary administration undertaken in handling spurious objections. This enhanced efficiency will further effective competition and so promote 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;

This modification will reduce the level of unnecessary objection processing by xoserve's central system, as fewer objections are submitted, and so furthers 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

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

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

The relatively low cost of this modification make it uneconomic to recover those costs via the User Pays mechanism

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.

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

No changes will be required.

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

We believe that the proposal will reduce the number of spurious objections that are submitted by Shippers so reducing the administration undertaken by Users within the gas retail market.

b) Development and capital cost and operating cost implications

There will be a reduction in operating costs as the number of spurious objections raised is reduced.

c) Consequence for the level of contractual risk

No such consequence is anticipated.

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

Unnecessary objections in many cases delay the transfer of customers to the new Supplier they have chosen. By minimising the number of unnecessary objections, customer dissatisfaction will be reduced and the perception of the gas retail market will be improved.

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

The modification will provide transparency around the objections process and provide an incentive to use the process in line with the licence requirements, so discouraging improper or unnecessary use.

b) Disadvantages

None identified.

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

As we have noted above, the only costs we have sight of for this modification is if it is included within the Information Provisions project. We would suggest therefore to minimise costs to the industry overall that this modification is included within that project.

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

This modification should be implemented in line with the Information Provisions project.

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



Glenn Nixon
Head of Operations
GM&T Retail