GAZPROM MARKETING & TRADING RETAIL

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John Bradley
Modification Panel Secretary
Joint Office of Gas Transporters
1st Floor South
31 Homer Rd
Solihull

3rd December 2009

Dear John

UNC Modification 275: Reduction in DM LDZ Exit Capacity for Supply Points with significant Change in Usage

Gazprom Marketing and Trading Retail (GMTR) believe that modification 275 should be made. The timely implementation of the modification would provide relief to a small group of customers who are facing an extremely difficult trading environment given the current economic climate. We therefore believe adoption of the modification is also in line with Ofgem's wider duties to protect the interests of customers.

At the present time shippers, on behalf of customers, will have to book and pay for LDZ capacity for DM supply points for the gas year October 2009-10 that is not being used. Given the current economic climate these charges are having a material impact on customers, mainly at the higher gas usage end. With the economy is such a deep recession, these customers need help in keeping their costs down to maintain competitiveness, and they should not pay for capacity they do not need.

These are the same group of customers who benefitted most from the old charging regime where supply point charges were mainly related to commodity usage. Given the realignment of capacity charges, where many of these customers would have seen falling commodity charges with reduced usage, they are instead facing transportation costs they cannot effectively manage. We have heard no convincing reasons why customers should not be able to notify reduced usage in a timely manner. Furthermore, shippers and suppliers are making less money from gas customers who are using less gas and transporters should face similar signals.

It is not economically efficient to require customers, via their suppliers to pay these charges. Customers will be reducing and negotiating down business costs with many of their suppliers and will not be paying for unused goods or services. We believe that the number of customers who will want to take up this capacity reduction option is limited, but they are nevertheless customers' whom Ofgem has a primary duty to protect.

For the shippers, where we pay the charges for the customers initially we are facing increased credit risks from the customers going out of business without paying the charges. Credit issues clearly add to our supply costs and anything that can be done to help shippers manage this risk will ultimately benefit consumers.

.We note the distributive impact that National Grid has outlined (presentation dated 20 November 2009) and welcome their attempt to analyse the potential impacts. However, we do not believe that take up will be that significant so the redistributive effect will be marginal. If the modification is not made, then these customers may go out of business, in which case the remaining customers will see charges rise anyway as shippers can use the Isolation and Withdrawal rules far faster than the BSSOQ/SOQ reduction rules. Where charges are redistributed to other customers, these increases are at least being placed on capacity that is being used, rather than the group of customers who the modification will benefit who are paying for unused capacity.

We note that any customers who take the option to reduce capacity may subsequently find their demand increases. They do carry the risk that the capacity they then require will not be available, and they may have to wait years for new firm capacity. This is a risk we believe the customers understand and means that only those with a clear economic imperative to reduce costs will apply for capacity reductions.

From our own portfolio we have had direct requests from a small number of customers to reduce their SOQ[1]. We have not actively asked customers if a reduction would help their businesses, as we did not want to raise customer expectations.

On timing, given the tight deadlines for customers making appeals (the appeal window is October to January and the appeal must be completed by the end of January, so start mid January), GMTR would hope that Ofgem will be able to reach a decision quickly. For the longer term the industry should look to develop a faster approach to SOQ reductions as linking charges to peak day demand that may have occurred two years previously will not result in cost reflective charges. It is also important that if gas use reduced as a result of efficiency measures (in line with Government policy) the DNOs receive signals about the actual capacity needed, before they make investments.

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[1] GMTR is happy to provide more information to Ofgem on a confidential basis if that would be helpful.

Finally, we would ask Ofgem to direct the DNOs to quickly develop a standard declaration for the customers to sign. We cannot understand what benefit this letter provides to the DNO who has no direct relationship with the customer and no come back against them if the declaration is not adhered to.

GMTR hopes that these comments are helpful and is happy to discuss any of the points raised.

Yours sincerely

Glenn Nixon
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Gazprom Marketing & Trading Retail