

September 10th, 2010

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## **Response to Proposed UNC Modifications 0317 / 0317A: "Interim Allocation of Unidentified Gas Costs"**

Dear Tim,

First Utility supports Proposed UNC Modification 0317. It does not support Proposed UNC Modification 0317A.

While there is anecdotal evidence relating to unallocated gas volumes in the NDM LSP sector, it is extremely difficult to quantify this on any meaningful level without proper independent analysis. Prior to the determination which will be undertaken by the AUGÉ following the implementation of UNC Modification 0229, the proposer of Mod 0317 has suggested that the NDM LSP sector pay £2.75 million towards the cost of unallocated gas commencing on April 1<sup>st</sup>, 2011. Any LSP sector contribution determined by the AUGÉ is expected to commence on April 1<sup>st</sup>, 2012.

First Utility welcomes the proposal that the LSP sector should make a contribution towards unallocated gas prior to the AUGÉ making its determination. However, we are uncomfortable with the concept of retrospection once the AUGÉ has made its determination as proposed in Mod 0317A.

Retrospection would potentially introduce considerable uncertainty to the LSP sector and it is probably worth reiterating the point that the LSP sector does not generally charge customers on a tariff basis as the SSP sector does but instead performs this function by means of fixed price contracts made directly with each customer. In light of this fact, the introduction of retrospection could impact the ability of the LSP sector to hedge its market risk through the quotation of appropriate customer prices, thus potentially seriously affecting Users who operate largely or exclusively within this sector. This may then lead to the erosion of competition in the LSP supply market and could lead to the "Big Six" vertically integrated supply companies dominating the non domestic market as well as the domestic market.

The LSP sector is not attempting to avoid paying its fair share of the cost of unallocated gas and, indeed, Mod 0317 is an earnest attempt to make a contribution even before the AUGÉ has concluded its analysis. In addition, the LSP sector is committed to implementing the findings of the AUGÉ and will pay the amount determined for the sector once the AUGÉ's findings are released. However, the element of retrospection proposed in Mod 0317A goes beyond the original remit of Mod 0229 and, as already stated, would potentially have serious ramifications for competition in the LSP sector if implemented.



Please do not hesitate to contact me if you have any questions or would like any further information.

Regards,

Chris Hill

Regulation

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