

Bob Fletcher
UNC Modifications Secretary
51 Homer Road
Solihull
B91 3LT

13 September 2010

Dear Bob,

Response to UNC Modification Proposals 0317, 0317A, 0327 Allocation of interim unidentified gas costs

Thank you for the opportunity to respond to the above modification proposals. GDF SUEZ Energy UK supports the implementation of UNC 0317 and does not support the implementation of either UNC 0317A or UNC 0327.

Established Principles

The principle of an **independent** expert (AUGE) determining the allocation of unidentified gas costs was accepted by the Authority in its decision to accept UNC 0229. This principle is retained in UNC 317 which seeks to apportion an amount to the Large Supply Point (LSP) sector which has been independently determined (TPA solutions). This apportionment would be applied effective from April 2011 until the AUGE is appointed and determines the future level of costs to be apportioned. UNC 0317 is also consistent with the methodology introduced as part of UNC 0229 in that it introduces cost apportionment on a **prospective** basis. The principle of prospective application of costs is important to all parties in order that they can predict the cost base on which to provide an accurate price to customers. This is particularly important in the LSP sector where prices are primarily bespoke, non-tariff and set by the prevailing market price, which is known at the time of hedging and transportation costs, which are known in advance.

UNC 0317A and UNC 0327 both propose to apply retrospective adjustments and therefore do not adhere to the principles accepted by the Authority in its decision on UNC 0229. Furthermore, UNC 0327 is not consistent with the principle of independence as it proposes an attribution level which has not been independently determined. This proposed approach has already been rejected by the Authority in its decision on UNC 0228/0228A.

Relevant objectives

UNC 0317 furthers relevant objective A11.1 d "securing effective competition between relevant shippers and suppliers" as it makes provision for a cost contribution relating to unidentified gas which has been independently and expertly determined in a transparent manner.

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Both proposals UNC 0317A and 0327 would be detrimental to relevant objective A11.1 d "securing effective competition between relevant shippers and suppliers". Any retrospection introduces uncertainty, particularly in the LSP sector as outlined above and retrospection has the opportunity to award windfall profits to domestic suppliers. It is impossible to ensure that if there were any benefits that these would be passed through to consumers in the domestic sector, particularly in the case of consumers who had recently changes supplier. Costs for consumers overall may increase overall due to the difficulties of managing the retrospective elements of these proposals.

Additionally it is possible that competition in the LSP sector could be detrimentally affected by those companies who operate in both the LSP and domestic sectors via either a deliberate or unintentional cross-subsidy.

End of response

I trust this information is helpful and if you have any questions or would like to discuss further, please do not hesitate to contact me on 0113 306 2104 or mobile 07733 322460.

Yours Sincerely,

A handwritten signature in blue ink that reads "P. Broom". The letters are cursive and slightly slanted.

Phil Broom
Regulatory Affairs Manager
GDF Suez Energy UK