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Bob Fletcher
Joint Office of Gas Transporters
51 Homer Road
Solihull
B91 3QJ

6th September 2010

Dear Bob

Re: Modification 0317 & 0317A Interim Allocation of Unidentified Gas Costs and Modification 0327 Alternative to Interim Allocation of Unidentified Gas Costs.

We are happy for our comments to be shared with other interested parties.

Gazprom **supports** Modification Proposal **0317** and **does not** support Modification Proposal **0317A** and **0327**.

As you will be aware Gazprom are a member of ICOSS and it was ICOSS via Shell Gas Direct which raised modification 0229 which was approved by the Authority on the 10th June 2010.

This proposal sought to provide a prospective solution to concerns over the treatment of unallocated Gas between the SSP and LSP sectors. The proposal introduced an independent third party (AUGE) whose task was the impartial assessment of the amount of unidentified Gas which should be allocated to the LSP sector.

Due to the timescales involved in the selection and appointment of the AUGE concerns were raised over arrangements for the interim period. It is proposed that corrective invoices be issued from April 2012 although the original modification did not set a date.

Following discussions Shell Gas Direct therefore raised Modification 0317 which provided for an interim payment of £2.75m. This figure represented the mid point in independent analysis based on Xoserve's data.

Gazprom believe that Modification 0317 represents the appropriate, proportional and consistent approach to addressing the provision of an interim solution. We note that it is based on the independent analysis of Xoserve's own data and the mid point provides a fair contribution for unidentified Gas in the LSP sector in the Short term.

It is important that unidentified Gas is fairly attributed and that such attribution is carried out in a prospective manner on a fair and reasonable basis. We believe a sufficient level of certainty is required for all market participants and we should avoid solutions which will lead to Consumers being retrospectively charged. By providing sufficient prospective notice Suppliers will be able to manage the pass through of Charges in a controlled way and provide Consumers with advance notice ensuring clear pricing, stability and certainty.

We believe that retrospective payments are an inherently unfair mechanism for allocating Unidentified Gas costs. Payments a year after costs were incurred means that LSP Consumers would pay more or less than is fair (owing to fluctuations in the market share of the Supplier) and SSP Suppliers would receive a windfall.

We note the methodology set out in Modification 0327 which proposes and interim payment of £121m attempts to link to completely separate and unrelated processes the AQ Review and RbD. We would also note that this value is 3 times the average RbD reconciliation amount that was ascertained by Ofgem in the RbD review in 2006.

Gazprom are also concerned over the impact these modifications may have on the decision process for Modification 0317. The Modification 0229 timescales intentionally mirrors the timescales of the Transportation Charging regime to allow SSP and LSP Suppliers time to adjust their prices in response to the AUGE's findings.

Similarly, Modification 0317 was raised 9 months prior to April 2011 so that Suppliers could make allowances for the additional costs or payments they would receive.

We are concerned that any delay in the decision for modification 0317 would give Suppliers less time to lower prices for SSP customers. In addition LSP Shippers would be obliged to load additional cost onto their consumers at short notice.

It is therefore in the interests of all consumers that as much notice as possible is given to Suppliers as to the level of reallocation expected and that a decision on Modification 0317 is not delayed to allow similar, but unrelated modifications to be considered at the same time.

I trust these comments are helpful. If you have any queries regarding this response please do not hesitate to contact me directly.

Yours Sincerely

Steve Mulinganie
Regulation & Compliance Manager