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By email: enquiries@gasgovernance.com

Dear Tim

Re: Total Gas & Power (Total) response to Modification proposals 0327

Total welcomes the opportunity to respond to the modification proposal 0327

Total is in agreement with the view that unidentified gas can be more accurately allocated to the SSP and LSP sectors as has been established under modification 0229. We are also supportive of the solution proposed by modification 0317 for interim arrangements that will be implemented in the event the full extent of modification 0229 has not been completed before April 2011.

1. However Total does not support modification proposal 0327 for the following reasons:
The methodology that has been provided to calculate the value is flawed and somewhat incomprehensible. Unallocated Gas has nothing to do with the RbD Volume flowing between the LSP and SSP sectors, but is a consequence of the SSP sector not being reconciled to actual consumption. Indeed, the whole RbD regime is rather crude as a mechanism to ensure appropriate allocations of gas across the consumer base and is a contributing factor to the whole unidentified gas issue.
2. Modification 0327 is a further proposal for historical reconciliation of Unidentified Gas charges. As we have stated in our response to Modification 0317(a) this suggestion completely goes against a key principle of the industry discussions to date which is that suppliers must have certainty of the charges they face in advance in order for such costs to be built into pricing models and/or budgets. In addition, today, an increasing number of I&C consumers have contracts which require full and transparent pass through of all charges from the transporter. The suggestion of modification 0327 that charges should be adjusted retrospectively means a great deal of economic uncertainty for both the supplier community and I&C consumers. Further, it is clear that I&C suppliers have never historically factored unidentified gas provisions into their pricing whilst, as a matter of course, domestic 'tariffs' have been inclusive of such risks. It is also reasonably clear that operating within a tariff based regime typically allows domestic suppliers to adjust tariffs to 'make good' historical under-recoveries as required without overly

distorting their competitive positions relative to others. The contract based regime of I&C suppliers often offers no such economic remedy.

Ultimately we believe the matter of unidentified gas needs to be dealt with at the transportation pricing level in the same way as transmission and distribution losses. This reflects our view that achieving an accurate apportionment of the losses will always be problematical and therefore perhaps the fairest approach will be through universal smearing. We also note that in the 'Smart Metering' proposals for the domestic sector there is some discussion of full reconciliation down to domestic site level. This could add additional complexity to the issue but is also perhaps a good opportunity to establish a fair way forward.

In summary, Total agrees that 'unidentified gas' is a problem that needs to be addressed. However, seeking to progress the matter on the basis of an incomprehensible and prejudicial methodology cannot be the way forward. The industry needs to be cautious in implementing solutions and should seek not to move too quickly towards any extreme proposals if in doing so it will cause inconvenience and economic hardship to any particular group of customers.

Therefore we do not support Modification 0327.

Yours sincerely

Richard Dutton
Head of Pricing and Economics