

Mr Bob Fletcher
Secretary, Modification Panel
Joint Office of Gas Transporters
51 Homer Road
Solihull
B91 3LT

30th September 2011

Dear Bob

RE: UNC Modification 0388 – “Fixed parameters for determining Shipper contribution to Unidentified Gas”.

1. British Gas does not support the implementation of this Proposal and believes that its implementation will simply move risk, and therefore cost, from the Large Supply Point (LSP) sector to the Small Supply Point (SSP) sector without justification. This would be in effect a cross-subsidy which would distort competition between the two sectors and thus we do not consider the Proposal facilitates the Relevant Objectives of Code.
2. The current process for allocating unidentified gas¹ is that the volume of unidentified gas is reallocated between the SSP sector and LSP sector on a monthly basis, based on the prevailing commodity cost at the time. As this cost will vary throughout the year, the cost of energy reallocated between the two sectors will also vary slightly, creating a risk for both LSP and SSP Shippers.
3. The Proposer infers that the LSP Shippers are not able to purchase a hedge against this risk, and that it must therefore be avoided by fixing the price and market share calculations used by the Network Owners to the values at the beginning of the year.
4. We accept neither the premise that a financial instrument cannot be purchased to hedge against this risk, nor the view that fixing the price would be beneficial for the market. This will simply force SSP Shippers to calculate the risk they now bear and attempt to cover that in their pricing. To that extent, we consider that the effect of this Proposal is simply to move risk from

¹ As set out in the [AUGE Guidelines Document](#), introduced by Modification Proposal [0229](#) following a Proposal from Shell Gas Direct.

the LSP sector to the SSP sector with the intimation that domestic customers should bear the cost avoided by non-domestic customers.

5. Shippers can hedge the risk associated with price movement for a price, this Proposal would have the effect of allowing LSP Shippers to avoid the costs associated with that, and by extension, pass those costs to SSP Shippers.
6. As the largest LSP Shipper, we acknowledge the price of gas (as with any other commodity) will vary day to day as a matter of course, and have developed processes which enable us to either hedge against the risk, pass the costs through to our customers where allowed or absorb them as and when the situation calls for. This range of choices will also apply to the costs of unidentified gas we face following agreement of an methodology and provide LSP Shippers with adequate remedy to any certainty issues which may arise. To that extent, this Proposal is not needed, and the issues the Proposer has identified can be managed by the business as usual processes we have all developed.
7. We are aware that some have argued that it would be prudent to allow the existing process to run its course for at least the first year before changes such as these are implemented. We agree with this view and think that were the industry to have an opportunity to embark on a “lessons learnt” exercise in 2012, it may be more beneficial than an attempt to pre-judge and amend the outcome now.
8. We do not believe this proposal facilitates any of the Relevant Objectives, but note that the Proposer considers that it may facilitate Relevant Objective (d). Our comments against that are provided below.

d) Securing of effective competition:

(i) between relevant shippers;

(ii) between relevant suppliers; and/or

(iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.

9. As above, we consider this Proposal will simply move risk from the LSP to the SSP sector of variations in commodity cost to tariff charged without good reason. The risk associated with such variations currently exists in any fixed term LSP contract and the issue highlighted by the Proposer is merely an extension of that. To force SSP Shippers to cover the cost associated with this risk would merely create an imperfection in the operation of the market which would distort competition between SSP and LSP Shippers. We do not therefore agree that this Proposal facilitates Relevant Objective (d).
10. Finally, we note that the legal text has been amended subsequent to development and discussion of the Proposal, such that it introduces a new process to reconcile any payments made which don't match the amounts as they would be under this Proposal. We are concerned this process hasn't been assessed or discussed by industry and that we have not had any

opportunity to assess how it may impact our business. Whilst we understand the Proposer's motives for seeking a prompt implementation, we believe that the proposal is under developed in it's current form and should, as a minimum, be referred back to the relevant Workgroup so that this aspect of the Proposal can be understood by industry Parties.

11. If you have any queries relating to this representation, please do not hesitate to telephone me on (07789) 570501.

Yours sincerely

David Watson
Regulatory Manager, British Gas