

Modification Panel Secretary
Joint Office of Gas Transporters
Ground Floor Red
51 Homer Road
Solihull
West Midlands
B91 3QJ

6th March, 2006

Dear Julian

Re: UNC Modification Proposal 0073

Corona Energy ("Corona") wishes to submit the following in response to the above modification proposal draft report.

Corona supports the implementation of this proposal as we believe it would better facilitate the achievement of the Relevant Objective, specified in Standard Special Condition A11.1 of the GT Licence, in particular;

- d) *"the securing of efficient competition between relevant shippers, suppliers and DN Operators;"*

Corona believes that following the recent restructuring of the gas industry, triggered by the sale of the DN businesses by National Grid, the need to address the price notification lead time is becoming increasingly important. The DNs operate under individual price controls, which in time, will develop to reflect specific costs and investments, operational efficiencies and potential directed incentive schemes. This is likely to produce greater variability in distribution related transportation charges, irrespective of the development of new charging methodologies which may be introduced independently by the DNs. By the very fact that DNs will be targeting revenue recovery over limited services and are unable to offset revenue growth in one discrete area against revenue restriction in another, means that, in total national transportation prices, are likely to become more variable. We suggest that the potential for greater locational price variability, or indeed less accurate price forecasts as currently provided, are likely to affect smaller shipper/suppliers with more concentrated customer portfolios i.e. those with limited geographic dispersal.

We would also add that, the forecasting capability of the individual DNs is uncertain and it is highly probable that some will perform better than others. Again, this has the potential to have a detrimental affect on shipper/suppliers. This point is highlighted by examining the forecast price changes compared to the actual price changes as experienced during 2005. For information a table displaying the significant variances is provided in the Appendix to this letter.

It is known that a significant portion of the I&C market operates in accordance with the Gas Year, striking contracts with a start date of October 1st. Typically, the customer led processes of selection and negotiation are in excess of two months prior to the strike date. At present, this means the transportation element of the overall supply cost will not reflect the actual costs prevailing at the time the contract is in operation. In the event that customers are willing to accept “transportation cost pass through” price changes can be introduced prior to or during the contract year. Unsurprisingly, “cost pass throughs” are not popular among many customers and Corona would argue that they should not be necessary, in any case. It does not reflect well on the gas market that previously agreed prices should be subject to change due to third party charge variations.

In the event that “cost pass throughs” are not permitted by customers, then there maybe a number of consequences;

- Customers will not realise the benefits of lower than forecast transportation costs;
- Suppliers are unreasonably exposed to additional costs in a highly competitive, low margin market;
- In some cases, it maybe that suppliers place a premium on contract offers to mitigate against price risk (this assumes limited competition for the contract, which may be the result of overall price risk)
- Smaller suppliers, particularly those with a geographical bias will face disproportionate price risk.

Corona does have some sympathy with the transporters’ position that certain variables needed to generate prices are not known until later in the year. We would suggest, however, that current practices should be reviewed and modified, including the timing of data collection, to best serve the interests of customers and shippers/suppliers. This would, of course, be consistent with their Relevant Objectives. On the basis that transporters are able to reschedule certain activities, this should limit the likelihood of within year changes being made to address any revenue excursions.

We trust you find our comments useful and if you have any questions then do not hesitate to get in touch.

Yours sincerely

Mark Pearce

Appendix

Transportation Changes applicable from 1st October 2005.

DN	Indicative Change %	Actual Change %	Difference %
East of England	+9.4	+12.0	+2.6
London	+11.5	+4.7	-6.8
North West	-4.8	-5.9	+1.1
West Midlands	+1.9	+4.2	+2.3
North of England	+8.5	+8.5	0
Scotland	+1.1	+4.5	+3.4
South of England	+4.0	+2.7	-1.3
Wales and West	+2.2	+3.5	+1.3

Indicative changes taken from 'Gas Distribution Charges from October 2005' published by Ofgem on 4th May 2005, as forecast by National Grid.

Final changes taken from DN covering notes issued on 29th July 2005.