

06 March 2006

Julian Majdanski
UNC Modifications Secretary
Joint Office of Gas Transporters
51 Homer Road
Solihull
B91 3LT

Dear Julian

**GAZ DE FRANCE ESS (UK)
LTD**

1 City Walk
Leeds
LS11 9DX
United Kingdom

tel: +44 (0)113 306 2000
fax: +44 (0)113 245 1515

www.gazdefrance.co.uk

REGISTERED IN ENGLAND
NO. 2706333

Uniform Network Code Modification Proposal 0073 – Revision to the notice period regarding the implementation of changes to transportation charges

Thank you for the opportunity to respond to the above modification proposal. Gaz de France ESS supports the implementation of modification proposal 0073.

The current environment of high wholesale gas prices coupled with increased volatility driven primarily by uncertainties over gas supplies have changed the purchasing behaviour of many Industrial and Commercial customers and energy buyers. Suppliers have responded to these different market conditions by introducing more choice to customers via innovative and flexible products. The increased flexibility offered to customers has meant there is now a wider time-band available in which to contract than was previously the case. Generally as products become more complex additional lead-time is required for negotiations and so the call for a four month notification of transportation charges is now timely.

A significant proportion of Industrial and Commercial gas contracts renew in October and fixing the rate gives significantly less requirement for suppliers to reconcile transportation costs throughout or at the end of the contract for customers who pay transportation charges on a pass through basis. Reducing the need for end of contract transportation reconciliation should better facilitate the relevant objective A11.1d, the securing of effective competition between relevant shippers, suppliers and DN operators.

Customer charges should be more accurate in the first instance therefore reducing the need for financial reconciliation, which may slow down or even deter customers from switching supplier. Also, implementation of this modification may lead to a reduced administrative burden and cost savings for suppliers, which should result in better competition in supply where customers can benefit from lower prices.

Significant swings in transportation charges (indicative to actual) as seen recently increase the materiality of, and therefore the need for reconciliation. Previously, smaller changes may have been deemed uneconomical to recover by suppliers.

Given the best endeavours obligation for transporters to set charges accurately there is a concern that transporters may choose to reset charges within any gas year if initial forecasts prove wrong. Many of the benefits for customers and efficiencies for suppliers would be undone if this were the case therefore re-setting charges should be avoided wherever possible. Divergence of charges across regions has been driven by the need for cost reflectivity and is likely to be an enduring feature going forwards, this may add to volatility.

Should this modification be implemented there would clearly be a need for a common methodology across DN owners for setting charges within a forecast range. Charges could be set at mid-point of the forecast range or at the level of the most likely scenario but disregarding unlikely or extreme options. A published and consistent methodology could assist in quantifying the benefits of comparative regulation post DN sales and give clearer information for shippers and customers. Appropriate incentives already exist for transporters, which encourage forecast accuracy. These should discourage overly cautious initial charge submissions, which could lead to price revisions mid-term.

Year on year volatility is already significant; the potential variance in charges over 2 years (2005/6 & 2006/7) as per the indicative notice given last year indicated a range of possible charges for each region with the largest spread being 16% (North West -5% to +11%). Should this modification be implemented there may be reduced volatility as a level of smoothing is experienced year on year.

In conclusion, Gaz de France ESS agrees with the proposer that this modification proposal better facilitates the relevant objective A11.1d *securing effective competition between relevant shippers and suppliers*.

If you have any queries regarding this response please contact me on 0113 3062104.

Yours sincerely



Phil Broom
Regulatory Affairs Analyst
Gaz de France ESS