

14 May 2007

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

Dear Julian

**Uniform Network Code Modification Proposals 0115 and 0115a –  
“Correct Apportionment of NDM error”**

**Summary**

Thank you for the opportunity to respond to the above modification proposals. Gaz de France ESS supports the implementation of modification proposal 0115A and does not support the implementation of 0115.

**Modification Proposal 115**

**Relevant Objectives**

Gaz de France ESS is of the view that modification proposal 0115 is detrimental to 2 relevant objectives stated in standard special licence condition A11.1 of the gas transporter licence. Firstly:

A11.1(c) “the efficient discharge of the licensee’s obligations under this licence “. Transporters have a licence obligation under standard special condition A5 to ensure:

- a) That compliance with the charging methodology results in charges which reflect the costs incurred by the licensee in its’ transportation business;
- b) That so far as is consistent with sub-paragraph a), the charging methodology properly takes account of developments in the transportation business;
- c) That so far as is consistent with sub-paragraph a), compliance with the charging methodology facilitates effective competition between gas suppliers and between gas shippers.

Proposal 0115 applies a uniform transportation reconciliation rate to both Large Supply Points and Small Supply Points which does not reflect the different costs of transporting gas to these sites. Prevailing transportation charges are set differently under the charging methodology to reflect these costs and introduction of a penal rate as proposed in 0115 does not

**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](http://www.gazdefrance.co.uk)

REGISTERED IN ENGLAND  
NO. 2706333

properly reflect these costs. Indeed, as charges levied could be around 3.5 times higher than the prevailing rate, this proposal produces a cross-subsidy effect between small and large supply points in this respect and damages competition between shippers and suppliers. Also, any charges which may be passed through by suppliers to consumers, should this proposal be implemented, may be viewed as disproportionate and challenged by customers.

Secondly:

A11.1(d) “the securing of effective competition between shippers and suppliers”.

Gaz de France ESS believes that implementation of this proposal would introduce a manifest cross-subsidy to the detriment of the Large Supply Point sector. Evidence presented in proposal 0115a shows that the main component parts that make up unreconciled energy i.e. theft of gas, delay in LSP reconciliation and meter errors are insignificant when related to Monthly Read Large Supply Points.

Further to this, evidence presented by Xoserve has indicated that only 1% of detected theft by number of sites and 8% by volume can be attributed to Large Supply Points. Allocation of unreconciled energy as proposed in modification 0115 would result in approximately 40% of unreconciled energy costs being apportioned to the Large Supply Point segment. Conversely, implementation of this proposal would result in a disproportionately low allocation of costs to the Small Supply Point sector. This would further lessen the incentive to discover and rectify problems such as theft of gas and shipper-less sites in the Small Supply Point sector. Clearly this is disproportionate and detrimental to competition.

Any attempt to smear costs in an unreflective manner as proposed, would artificially inflate costs and hence prices to customers in the Industrial and Commercial market and create a cross-subsidy between market segments. This cross subsidy of energy charges would be unduly onerous to both suppliers and customers in the Industrial and Commercial market.

## **Modification 115A**

### **Relevant Objectives**

Gaz de France ESS considers that this alternative proposal furthers the relevant objectives in Special Licence Condition A11.1 as follows:

A11.1(c) “the efficient discharge of the licensee’s obligations under this licence”.

Modification proposal 0115A looks to introduce a two tier transportation price for LDZ commodity and as such better reflects the costs incurred by transporters in their transportation business. This alternative modification proposal better aligns with Transporter Charging Methodology and removes an element of contractual risk between suppliers and customers in the Industrial and Commercial market. Transportation charges associated with unreconciled energy will be the same as the prevailing transportation charges for non-monthly read Large Supply Points.

A11.1 (d) “the securing of effective competition between relevant shippers and between relevant suppliers”. This proposal better ensures the correct allocation of energy and transportation charges to the market segments most likely to create costs relating to unreconciled energy.

As proposer of modification proposal 0115A Gaz de France ESS recognises that it may not be appropriate for the Small Supply Point sector to bear the whole cost of unreconciled energy. To this regard our proposal extends the scope of charges to the non-monthly read NDM sector which may display similar characteristics to Small Supply Points relating to the components of unreconciled energy.

### **SPA Elective monthly read process**

Under UNC currently, it may be possible for any Large Supply Point which is currently annual or bi-annually read may to nominate to become monthly read. This is an elective SPA process for the shipper but one which in principle requires the agreement of customers. It has been suggested that shippers may re-nominate annual read sites to be monthly read under this proposal. This is unlikely to happen in practice. Customers at the smaller end of the large supply point market are likely to have chosen fixed price terms from their supplier and as such are unlikely to want to bear additional costs and complexity associated with a monthly read regime. Likewise it is unlikely that a shipper or supplier would choose the monthly read regime unless there was a billing requirement and an agreement to recover these additional costs from the customer.

However, should either the shipper or customer choose to move from an annual or monthly read regime there are clear benefits arising. Increased provision of meter reads from the shipper to the transporter increases the frequency of reconciliation and reduces contractual risk for suppliers and customers posed by a longer reconciliation period. In the same regard, detection of theft is also improved. More frequent provision of meter readings is also beneficial for transporters by improving the reconciliation process and good for shippers to Small Supply Points as the transient effect on RbD is reduced.

### **Timescale for implementation**

Should it be decided that UNC 0115A is implemented then due regard should be given to two points to ease the transition for all industry participants. Firstly;

A reasonable timescale should be allowed to enable suppliers to the Industrial and Commercial market to make changes to their supply contract terms and sufficient lead time to allow a true reflection of costs and risks when negotiating forward contracts with customers. Typically, most forward contracts are agreed for a minimum 12 month duration.

Secondly;

The transportation element of unreconciled energy is currently only applied to Small Supply Points and as such the revenue recovery of transporters sets a price to reflect this. Should UNC 0115A be implemented there may be a temporary under-recovery in the relevant charging year which would be recovered via "K" in the subsequent charging year. The implementation timetable should take this into account and should the view be taken that "K" is minimised, a review of transportation prices resulting from the start of the next Distribution Price Control period in April 2008 should give an opportunity to reset charges appropriately.

### **Information Provision (0115 and 0115A)**

On a general point, whilst recognising the difficulty in providing relevant information in this area, it has been disappointing to note the lack of evidence made publicly available relating to unreconciled energy. Despite being discussed at the UNC Distribution Workstream for a number of months minimal supporting evidence has been produced to support the original BGT 0115 proposal either from the proposer or transporters via their service provider.

As proposer of 0115A we have endeavoured to provide as much substantive evidence as possible from our own sources to support

implementation. We believe this evidence is consistent with that of other Industrial and Commercial suppliers and similar results were displayed from other players at UNC Distribution Workstream.

Gaz de France ESS has been disappointed that very little evidence or analysis has been brought forward on this topic by impartial parties (transporters via their service providers) to inform the debate. Any evidence or analysis relevant to a modification proposal should, in our view, be made publicly available to all industry participants at the relevant workstream and ahead of consultation, in order to stimulate an informed view in consultation responses.

If you have any queries regarding this response please contact me on 0113 306 2104.

Yours sincerely



**Phil Broom**  
**Regulatory Affairs Analyst**  
**Gaz de France ESS**