



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

14 May 2007

Dear Julian

**Re: Draft Modification Report 0115/0115A**

Gazprom Marketing & Trading ("GMT") wishes to submit the following in response to the above draft modification report.

### **Introduction**

GMT does not support the implementation of either of these Modification Proposals. We do not believe that the proposals accurately reflect the problems associated with the operation of RbD and as a result will not better facilitate the Relevant Objectives. In particular, we note that in particular Proposal 0115 does not provide any evidence to substantiate the claims it makes in terms of the performance of the various variables and as a result fails to establish how rolling out of the NDM errors would lead to any improvements in the current process.

### **Detailed response to the Modification Proposals**

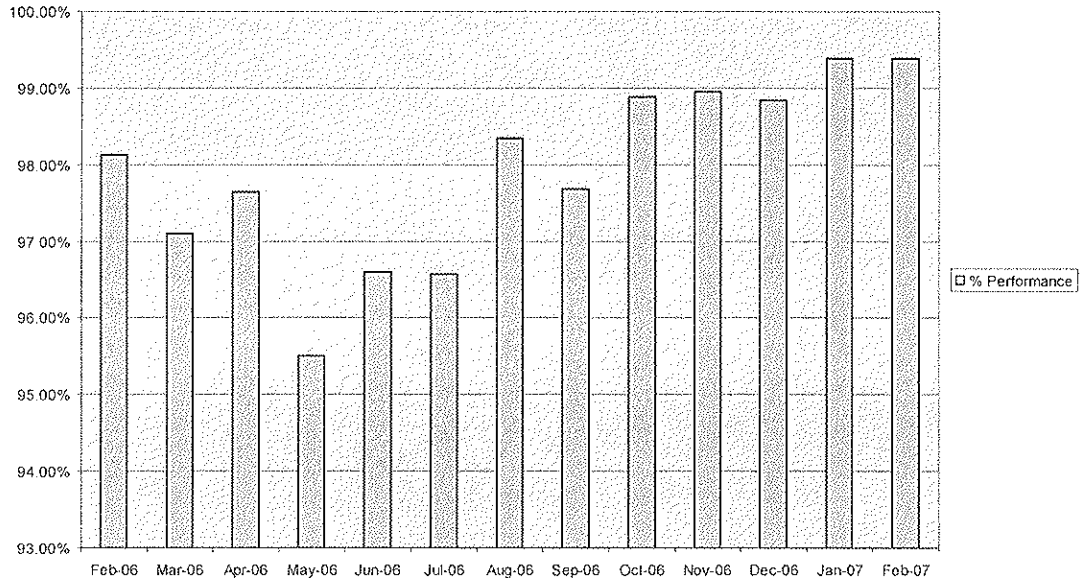
The Proposals both seek to extend the allocations of the NDM error to particular market segments. Mod 0115 proposes that all I&C NDM's should be incorporated into the "pot" while Mod 0115A proposes that this approach should only be adopted in relation to the non-monthly read I&C sector.

In terms of the justification for this extension, Modification Proposal 0115 lists a number of issues which when considered in aggregate point towards the inclusion of the I&C sector. We wish to reiterate that the Proposer has elected not to provide any evidence associated with any of the contributing components to a) establish that they are relevant and, b) that the I&C sector contributes a disproportionate or even equal consideration to the problem. Through the provision of evidence or reasonable argument GMT will establish that the assumptions made in both Proposals are unfounded, or indeed the problems, as they exist are more likely to be relevant in the domestic sector.

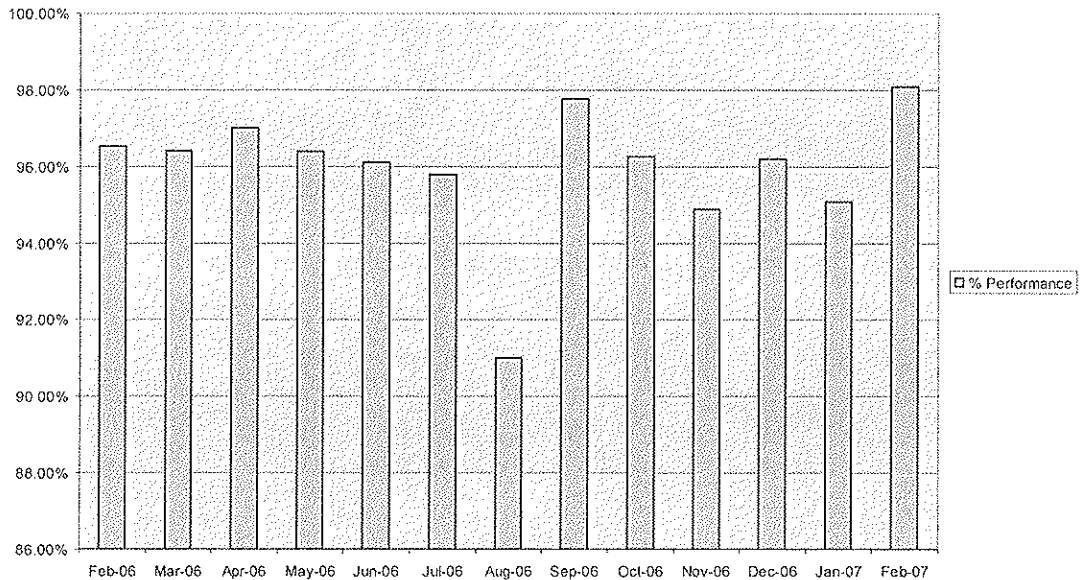
## Unreconciled Energy

GMT's portfolio contains a strong mix of both monthly and non-monthly read customers. We have provided two charts below which show read performance across the two sectors:

Monthly Read % Performance



Non Monthly Read % Performance



It can be seen from the charts that read performance is high, in fact in both sectors performance is consistently in the high 90 percents. We understand that this compares very favourably with performance in the domestic sector where performance tends to feature around the 70-75 percent range.

On this basis we believe that the evidence suggests that the assumptions made in both proposals with regards this component are unfounded. It is clear that the read performance provides for robust levels of meter point reconciliation and that there is no material impact on RbD of meter reading in this sector. Also, given recent changes to the UNC, in particular through Modification Proposal 0124, read performance will further improve.

### **Theft of Gas**

GMT welcomes the statements made in Modification Proposal 0115A with regards the volume of theft across all sectors in the gas market. Clearly, this evidence drawn from presentations made by xoserve shows that theft is not a significant issue in the I&C sector, but remains a problem at the domestic level. GMT will not restate the data provided in Proposal 0115A but will simply conclude that it is clear that the I&C market does not meaningfully contribute to the levels of recorded theft. We will go further and claim, based on reasoned assumptions that in relation to unrecorded theft that the domestic sector is more likely to experience greater problems. This is based upon the fact that meter reading performance in this sector is inferior to that exhibited in the I&C sector. It is reasonable to assume that the majority of incidents of theft are identified at the time a meter read is taken.

### **System Leakage**

GMT believes that this issue is best dealt with at the Transporter level as it is they who have direct control over performance in this area. We understand that proposals for the forthcoming Price Controls at the DN level should improve performance especially when combined with the extensive pipe replacement schemes currently being implemented across all networks.

Similar to the reasoned assumptions made above, GMT would argue that the volume of system leakage is likely to be higher in relation to domestic sites. This is based on the observation that domestic sites tend to be located on lower pressure tiers and often in more remote locations than I&C connected loads. Simple physics would suggest that the further molecules are required to travel then a greater incidence of leakage will occur. Again, we would argue that domestics make a disproportionately greater contribution to leakage than the I&C sector.

### **LDZ Offtake Metering**

As with the points raised above, GMT believes that Transporters should be targeted with improving performance in this area, as LDZ offtake Meters are directly under the control of the DN operators. GMT believes that the industry would be far better served focusing attention on remedying this problem at source rather than seeking to ignore it and let customers absorb the costs.

In terms of normal operations, GMT is not aware and certainly no evidence has been provided in either proposal that these meters are subject to any inherent bias. On this basis, it is reasonable to assume that on average meters read accurately and the domestic sector is not subjected to any additional costs via the RbD process

Finally, as we show in the supply point metering sub-section as I&C meter reading performance is high then the actual energy consumed by these customers is correctly reconciled in any case.

### **Supply Point Metering**

As above, GMT is not aware and certainly no evidence has been provided in either proposal that these meters are subject to any inherent bias. On this basis, it is reasonable to assume that on average meters read accurately and the domestic sector is not subjected to any additional costs via the RbD process

### **Unregistered Sites and Supplier Inputs**

GMT like many I&C suppliers/shippers have invested much resource into ensuring that customer details are correct. Any deviations away from accurate core data may lead to problems in billing, reconciliations and customer relations. GMT runs rigorous checks on its customer databases and ensures that the data is consistent with that held on xoserve central systems. In addition it ensures that AQ and other associated data components are accurate and best reflect the consumption patterns of its customers. We do not believe that there is any evidence and certainly none has been provided in the Proposals that I&C shippers are at best remiss in this regard or at worst guilty of manipulating data for its gain. GMT sees no incentive for I&C players not to represent their portfolios accurately, however, it could be argued that under RbD such an incentive maybe more prevalent in the domestic sector.

### **Deeming algorithms**

We have not been presented with any evidence to suggest that the algorithms are inaccurate or indeed, biased in any way. Given meter read performance across our portfolio, we believe that this is any case a red herring, as the meter points in our portfolio are correctly reconciled between read dates.

### **Charging**

Modification Proposal 0115 is in contravention of SLC4A of the GT Licence. It cannot in anyway be accepted that charging on one rate and reconciling on another is cost reflective and on this point alone the proposal must be rejected. Proposal 0115A proposes a two tier approach to ensure original charges and reconciliations are consistent. Notwithstanding the fact that this proposal is flawed in its assertions around the impact of non-monthly NDMs on RbD, GMT believes that in order to accommodate this approach system

costs would be excessive, as each supply point will need to be separately flagged and reconciled against the relevant rate.

## **IPGTs**

GMT wishes to bring to the attention of the industry the performance of IPGTs in relation to reconciliation. It is our understanding, as noted on the Ofgem issues log, that IPGTs performance in this area is woeful and for some reason not referred to by either Proposal. GMT believes that as with a number of issues cited above, industry would be far better focusing attention on areas where there are clear impacts on RbD and seeking to bring in measures to resolve them. Proposals such as 0115/0115A do nothing more than detract attention from the critical weaknesses in the industry and assign costs to the wrong parties.

## **Modification Report Sections**

### **Better Facilitating of the Relevant Objectives**

GMT believes that Modification 0115 is in contravention of SSpC A11 1(a) and (b) for reasons stated above. Charges will not be reflective of costs and will not lead to efficient and economic operation of the pipeline systems. In addition, on the basis that those parties which can exert any control over the components as detailed above are exonerated from any responsibility, it could be argued that problems would be better disguised under these proposals. This is mainly due to the fact that the error will be spread over a greater number of supply points. The proposals fail to incentivise those parties, be they domestic related Users or transporters to behave in a manner consistent with the objective to operate efficient and economic pipeline systems.

GMT also firmly believes that neither Modification Proposal 0115 nor 0115A will better facilitate SSpC A11 1(d). Both proposals are based on incorrect assumptions which will lead to a cross-subsidy between Users. This will lead to unjustified higher prices for I&C customers.

### **Disadvantages of the Modification Proposals**

- Will incorrectly target disproportionate costs at I&C sectors. This will lead to inflated costs for I&C customers as relevant suppliers will add premiums to mitigate against unpredictable costs.
- Charging proposals are at worst inconsistent with the relevant objectives and at best overly complex so as to render the proposal uneconomic.
- Will further misalign incentives on those parties responsible for effectively managing the NDM error i.e. domestic Users and transporters. GMT believes that these proposals will only serve to increase the size of the NDM error.

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

Yours sincerely

A handwritten signature in blue ink that reads "Keith Martin". The signature is written in a cursive, slightly slanted style.

Keith Martin  
Head of Marketing and Trading