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Dear Tim

Re: Modification Proposal 0228 - Correct Apportionment of NDM Error – Energy and 0228A - Correct Apportionment of NDM Error - Energy

Thank you for the opportunity to comment on the above proposals relating to the financial apportionment of unidentified gas from the LSP sector. Corona Energy (CE) does not support either modification but recognises that the methodology used in 228a offers a viable solution.

Proposal 228

CE believes it is vital that all gas suppliers are able to compete on a fair and level playing field. This principle was recently highlighted by Ofgem in its Gas Supply Probe and also in its Governance Review. In both projects Ofgem identified that it was essential that smaller suppliers and shippers are not disadvantaged by either the market structure or as a consequence of regulated contracts and their associated governance framework.

CE also believes that it is part of a shipper's duty of care to its customers to avoid passing costs through that are unfair and arbitrary. CE is therefore extremely concerned by the changes proposed under modification 228. We believe these proposals will lead to substantially increased costs to Industrial and Commercial (I&C) customers and will also substantially impact on competition in the SME sector.

Both change proposals would add around £75m annually to the costs of the I&C shippers. Due to the nature of the charging methodology for modification 228, I&C shippers would find it difficult to pass-through these charges to consumers which would leave the majority of I&C shippers unprofitable.

CE therefore believes it is essential that if Ofgem are minded to implement the 228 modification proposal, then they must first conduct a Regulatory Impact Assessment. This will ensure the full impacts of any decision, including the potential destructive effect it will have on competition, are completely understood prior to a decision being made by the authority.



The stated purpose of these charges is to compensate the domestic gas companies for theft or other such missing gas attributable to I&C businesses. Despite this CE believes the mechanism proposed by British Gas Trading (BGT) is actually designed to reduce the entire exposure faced by domestic shippers to the RbD mechanism and not only their exposure to unidentified gas. By contrast, the mechanism proposed in proposal 194a and being developed as part of Shell Gas Direct's (SGD) modification proposal 229 is clear, transparent, predictable and ensures that only appropriate charges are targeted at the correct parties.

CE believes the changes proposed in modification 228 will substantially impact on the business model operated by most specialist I&C suppliers active in the market today. Ultimately, this will provide the 'big six' domestic businesses with an unfair advantage which may lead to the demise of many of the I&C specialist gas suppliers. This would leave the majority of the I&C market dominated by the same 'big six' gas suppliers that currently dominate the domestic market.

Proposal 228a

The 228a proposal uses the mechanism proposed by CE in its proposal 194a and as such CE supports the mechanism used. However, the levels of the fixed charge that it seeks to implement are based on the highly subjective analysis of RbD data performed by BGT and xoserve. This analysis was reviewed by consultants (Waters Wye) working on behalf of the specialist I&C suppliers who found it to be fundamentally flawed on numerous levels. As Scottish Power have based the level of their proposed charge on the BGT analysis it is logical to assume that it must also be significantly flawed and that it also includes inappropriate costs.

Due to the level of interest in this matter CE recognise that it could be argued that both the analysis performed by BGT and xoserve and the subsequent review of the analysis performed by Waters Wye should be considered to be subjective. It is essential therefore that independent analysis is provided to Ofgem as part of an Impact Assessment to assist in their decision on both the 194 modifications and the 228 modifications. CE suggests this independent analysis may also serve as a basis for any future implementation of the SGD modification 229 which also has the concept of independent analysis.

Conclusion

The 229 proposal provides a more appropriate way to solve the issues in question. It recognises that the I&C market should make a contribution in recognition of the level of unidentified gas the LSP market generates and allows for an independent expert to assess a fair level of contribution. Proposal 229 uses the 194a mechanism to achieve this in a clear, transparent and predictable way and avoids the market distortions that proposals 194, 228 and 228a creates.

* <http://www.gasgovernance.com/NR/rdonlyres/8CB635A6-9447-4442-BDC5-A2F95B2F6C98/27441/WWApresentation0708.ppt>



I trust these comments are helpful. If you have any queries regarding this response please contact me on 0208 632 8169.

Yours,

Richard Street*
Regulatory Affairs Manager
Corona Energy

*please note as this letter has been delivered electronically a signature will not be attached