

## **Questions asked by Ofgem as part of the consultation on Modification Proposal 388 'Fixed Parameters for determining Shipper contribution to Unidentified Gas**

We understand that the main issue to be solved is the reduction of costs associated with the SAP mechanism. This involves replacing SAP with a fixed price. We are concerned that this may discriminate between LSPs and SSPs, as LSP uncertainty is reduced at the expense of greater uncertainty for SSPs.

We ask the following questions to better understand the context and scale of the issue, and how the solution will affect parties.

### Understanding the processes

1. It would be helpful to show, through a diagram, how the current and proposed pricing flows are passed through the industry.

### Understanding the scale of the problem

2. Proposal sets out that the existing pass-through mechanism mainly affects approx 75% of LSP NDM customers. What proportion of all gas goes to these parties?

### Understanding the strength of the proposed solution

3. Do you agree LSPs are less able to manage the risk of fluctuating prices and to what extent?
4. What is the level of saving made by LSPs under this modification proposal - for example of avoiding administration costs?
5. Would the risk borne by SSPs under this modification proposal increase?
6. How does the modification proposal affect the allocation of unidentified gas between parties?
7. What are the arguments for a shipper not taking on this risk?
8. For a range of different gas price scenarios, how are parties affected? For example, is a long-run increase in gas prices taken into consideration?
9. If one sector (SSPs or LSPs) is always going to have to bear the risk set out by this modification proposal, which sector is better able to manage that level of risk efficiently and effectively? At present, how does each sector deal with risk?

### Implementation of the proposed solution

10. What are the implementation costs associated with this modification proposal in the following two cases: a) decision is reached before 1 November 2011; b) decision is reached after 1 November 2011?

11. If this modification results in losses or gains for LSPs, in comparison to the baseline solution (P299), should they be recovered through the subsequent AUGE process?
12. Would a further modification be needed to make the adjustment envisaged by the previous point (question 11)?