

Mr Bob Fletcher  
Secretary, Modification Panel  
Joint Office of Gas Transporters  
51 Homer Road  
Solihull  
B91 3LT

5<sup>th</sup> April 2012

Dear Bob

**RE: UNC Modification 0404 – Profiling payment of LDZ capacity transportation charges for Smaller Shippers**

1. British Gas does not support the implementation of UNC Modification Proposal 0404.
2. In summary we do not support the modification proposal, for the following reasons:
  - There has been no Impact Analysis performed to demonstrate that the modification will better enable the facilitation of competition in the market or will positively assist Smaller Shippers. Ofgem is conducting its Retail Market Review to improve competition in the domestic market and remove barriers to entry; given the regulatory context, the proposed modification is unnecessary and unjustified, at least without further evidence substantiating the case for introducing it.
  - No impact analysis has been undertaken to demonstrate that the 100k supply point limit or the £500k credit limit is the correct cut-off point.
  - There has been no business case presented to illustrate that Smaller Shippers would take-up or indeed require the proposal.
  - The proposal will increase the operating cost to Smaller Shippers, through higher interest and credit cover costs increasing the possibility of default and bankruptcy.
  - The socialisation of cost should Small Shipper become insolvent increases the risk and potential exposure of unknown costs to other industry parties.

3. We do not believe that this proposal facilitates any of the UNC relevant objectives, including Relevant Objectives, 4 (d) – Securing Effective competition or that the current arrangements do not deliver or allow for competition to take place.
4. We do not believe that this proposal will secure effective competition between relevant Shippers and relevant Suppliers. There has been no Impact Analysis performed to demonstrate that the modification proposal will better enable the facilitation of competition in the market. As a group, we have been supportive of small supplier exemptions in other contexts (e.g. increase of the CERT threshold to 100,000 customers). However, this was after Government had produced a detailed impact assessment of the benefits and costs to competition of increasing/introducing such exemptions.
5. Where there is no evidence that the proposed modification would address a competition concern and such concern has not been properly quantified the modification could lead to unintended and disproportionate consequences (see 9, 11 and 12 below) without there being clearly defined benefits.
6. There is an assumption that Smaller Shippers cash flow issues are not the same as Larger Shippers. In fact cash flow issues relating to the profiling of Transportation payments may be higher for Larger Shippers.
7. The proposal could also operate as an incentive for Smaller Shippers not to grow past the 100k supply point level and £500k credit limit, which could actually have the effect of distorting competition as Small Shippers could make a conscious choice not to grow further. In addition, the modification could disadvantage Small Shippers who do not meet the eligibility criteria.
8. Only once an Impact Analysis is completed do we believe that the industry would be in a position to review the output from this analysis against the relevant UNC Objectives.
9. During the development of this proposal it has not been evident that any Smaller Shippers support this proposal. We believe that the proposal will increase the costs to Smaller Shippers due to the proposed high credit interest of BoE base rate + 8%, making take-up unattractive.
10. The general lack of interest from Small Shippers to support this UNC modification reflects that the modification is not a commercially viable alternative to current arrangements. There has been no visible support via the Small Shipper forum, nor has there been support from other avenues of contact with Small Shippers. Current commercial arrangements between an individual Shipper and a Transporter better

supports Smaller Shipper requirements, which enables them to individually negotiate better contractual terms than Modification 0404.

11. The proposal seeks to socialise the revenue received by Transporters from Small Shippers to Larger Shippers. The proposed interest split is 5% Shippers and 3% Transporters. The socialising of credit agreements of one Shipper to another Shipper/the industry has not been fully developed.
12. We believe the modification proposal does not facilitate good business practice and could encourage irresponsible business behaviour. For example, the proposal could encourage Small Shippers to be set-up to acquire customers during the summer months and collapse during the winter months following the inability to meet the backlog of payments and interest on those payments. The proposal does not adequately consider the risks associated with it to other Shippers.
13. In addition to the above we do not foresee the need of the Smaller Shippers to profile their capacity charges, when industry business models are based on flat monthly direct debit payments from customers. The proposal has not been developed to demonstrate why under the current arrangements, Small Shippers would move to a less predictable and more expensive business model. Therefore it is not a surprise that no party in the industry has shown interest for implementing the modification.
14. In conclusion, during the industry development workgroups no party has shown interest in the proposed change to UNC. There has been no Impact Analysis that demonstrates the proposal will better facilitate the relevant UNC Objectives. The proposal will adversely increase costs of borrowing and credit arrangements to eligible Shippers. The socialised costs of an eligible party becoming insolvent have not been fully developed. Other parties will incur incremental costs to develop system and process to manage the arrangements. Therefore we do not support the implementation of UNC Modification 0404.

If you have any questions regarding the response from British Gas, please do not hesitate to contact me directly.

Kindest regards,

Andrew Margan  
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British Gas