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Representation

Draft Modification Report

Modification 0418 & 0418A – Review of LDZ Customer Charges

Consultation Close out date: **2nd August 2013**

Respond to: enquiries@gasgovernance.co.uk

Organisation: Gazprom Marketing & Trading Retail (GMT&R)
Trading as Gazprom Energy

Representative: Steve Mulinganie
Regulation & Compliance Manager

Date of Representation: **1st August 2013**

Do you support or oppose implementation?

We SUPPORT 0418

We DO NOT SUPPORT of 0418A

If either 0418 or 0418A were to be implemented, which would be your preference?

We prefer 0418

Please summarise (in one paragraph) the key reason(s) for your support/opposition

Gazprom Energy supports 0418 as we believe it improves the cost reflectivity of the LDZ Customer charges and to put all the LDZ transportation charges on a DN specific basis. We note that the key difference between the proposals is an attempt in 0418A to change the charging methodology for the asset related costs from a flat rate (pence/supply point/day) to a flat rate (pence/kWh). Mod 0418A therefore seeks to overturn the majority view of the workgroup and impose an unreasonable charge on consumers who do not have the benefit of the allowance which we believe is inappropriate.

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It is also worth noting that Ofgem have recently highlighted concerns over inappropriate cross subsidies in particular in its decision letter for Mod 0428 where it felt Multi Metered Supply Points were benefiting from a subsidised customer charge.

The workgroup report identifies that 0418 recovers approximately 98% of the cost from the group of customers the allowance was intended for whilst avoiding cross subsidy and maintaining stable and predictable transportation charges

Are there any new or additional issues that you believe should be recorded in the Modification Report?

No

Relevant Objectives:

(How would implementation of this modification impact the relevant objectives)?

We agree with the workgroup that both modifications would better facilitate the achievement of objective (a) and we support the view that 0418 would also better facilitate this relevant objective since the analysis of costs and their drivers has produced the proposed charging functions, with those functions being driven by the data.

We also agree with the workgroup on objective (c)

We also support the view in objective (c) that 0418 recovers approximately 98% of the cost from the group of customers the allowance was intended for avoiding cross subsidy and maintaining stable and predictable transportation charges.

Implementation:

What lead-time would you wish to see prior to this modification being implemented, and why?

We would agree that, subject to sufficient notice, the proposals would best be implemented on 1st April consistent with other changes and charges. Clearly 0418A would need a significantly longer lead time than 0418 to reflect the high level of commercial impact that it will have on some consumers.

Legal Text:

Are you satisfied that the suggested legal text will deliver the intent of the modification?

We have not reviewed the legal text



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Is there anything further you wish to be taken into account?

Please provide any additional comments, supporting analysis, or other information that you believe should be taken into account or you wish to emphasize.

We believe it is important to highlight the potential significant impact on customers arising from the different approach in 0418A and in particular extremely large negative impacts for many sizes of customers with some customers (those with very large loads) seeing increases of over 100% in their distribution transportation charges and most industrial customers seeing distribution charge increases of over 20%.

It is also worth reflecting on the fact the allowance, by supporting the growth of connections in the domestic market, delivers long term commercial benefits to domestic Shippers and Suppliers as it expands the market for their goods and services so it would seem appropriate that the majority of the costs are recovered from that group of customers.

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