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REGISTERED IN ENGLAND
NO. 2706333

31 August 2007

Dear Joanna,

**Gaz de France ESS response to:
Proposal to modify Standard Special licence conditions A4, A5 and
D11 of the Gas Transporter licence**

Gaz de France ESS is supportive of the principle of increasing stability of charging in transportation. However, we do not consider that the changes proposed here will deliver the greater stability claimed and therefore we would like to see further options considered and the relative benefits examined before any changes are made.

Comments on Recommendation 1

Change the reasonable endeavours clause so that DNs are able to update charges twice a year (April and October).

It seems counter-intuitive to be moving to a more stable charging regime under which charges are set mainly on capacity and at the same time to be relaxing the conditions on transporters so that charges can be changed more frequently. This seems particularly odd considering the change recently approved by the Authority with regard to the Electricity DCUSA agreement. In the decision letter here it was stated by Ofgem that reducing the frequency of updates to charges would reduce supplier's level of risk and costs to consumers would be reduced as a result. Clearly, a move in the opposite direction on gas would have the opposite effect and costs to suppliers and consumers would be increased.

Comments on Recommendation 2

Reduce the period for indicative charges from the current 5 months to 3 months.

Gaz de France ESS does not consider this proposal has any meaningful benefit and may be detrimental to competition in the supply market. The current 5 month notification gives a clear signal to suppliers the direction and to some extent the magnitude of charges. This signal in early May is

crucial to inform prices for negotiations during the summer months for the October contract round. Should this change be implemented, indicative prices will not be known for a further two months. Many customers could delay contracting decisions on this basis and hence may miss opportunities to maximise the benefit of lower forwards wholesale prices.

It seems unlikely that shifting back the indicative price change will add much to reducing the indicative to final price variance for two reasons:

Firstly, the reliance on throughput data becomes almost irrelevant when charges are highly likely to be based on a 95% capacity basis in line with DPCR proposals. The sensitivity to throughput which has historically caused uncertainty will be all but removed under this proposal.

Secondly, the effect of the final REPEX incentive adjustment which is available mid July will still not be received in time for indicative price changes which would need to be published on 1 July under this proposal.

Increasing stability in charges, Additional Analysis Required

Gaz de France ESS is of the view that there are far more effective ways to add to price stability which are complementary to a more capacity based charging regime. To date there has been little supporting evidence produced by the DNs to justify the assumption that charges would become less volatile under the proposed models. Gaz de France ESS would like to see the following analysis developed by the DNs particularly with regard to smoothing models:

1. Retrofit the 95:5 model individually to previous year's charges for each DN or LDZ as appropriate
2. Retrofit a smoothing model which smoothed DN charges over a rolling 3,4,5 years with the current 50:50 split
3. Retrofit the 95:5 model combined with a smoothing model as described in 2. above to see the combined effect of models 1 and 2.

The above analysis should better inform the decision making process as the true value of each model could be assessed against viable alternatives. It would be unwise to implement changes to Transporter licence conditions without supporting analysis or without proper consideration of viable alternatives which could further stability of charges.

I trust this information is helpful and if you have any questions or would like to discuss further, please do not hesitate to contact me on 0113 306 2104.

Yours sincerely



P. Broom

Phil Broom
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Gaz de France ESS