

09 March 2006

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Dear Rachel

Re: Non-Domestic Supply Review: Consultation

Gaz de France ESS would like to take the opportunity to provide our views in response to the Philip Davies letter of 11th November 2005 which raised the question of a potential review of competitiveness within the non-domestic sector of the UK supply market.

Gaz de France ESS entered the UK gas supply market during 1999 operating from a base in Telford, supplying gas to Industrial and Commercial (I&C) consumers. In 2003 we relocated to Leeds and added a range of electricity products to our growing I&C portfolio. In addition to provision of both gas and electricity we facilitate the provision of a range of Demand Side services to National Grid, predominantly within the electricity arena but more recently, through our participation in the Ofgem sponsored Demand Side Working Group, we have begun to develop gas Demand Side products. We believe it would benefit competition to see further development here. Demand Side load management can offer real alternatives towards achieving system balance, in addition to enabling delivery of additional environmental benefits, which has already been shown within the electricity market.

In response to the questions posed by Philip in his 11th November letter we undertook two areas of study. The first was regarding our ability to win and subsequently serve our growing customer base. The second was whether we were able to compete on a level playing field regarding procurement of energy supplies.

With regard to services provided to our customers once we have agreement to supply we found there to be few issues to draw to your specific attention, other than around the complexity of the market and effect of regulatory change on our customers. For example uncertainty around the future transmission charging regime makes it difficult to predict the associated cost elements for our clients hence the need to ensure contract flexibility around certain elements within their final accounts. This does little to ease their difficulty in forecasting future energy budgetary requirements.

Uncertainty around the potential implementation of a Zonal Losses regime in electricity or change to the Gas Exit regime are two examples of regulatory uncertainty that will have potentially adverse cost implications for many within our current or future portfolio. In addition we have seen a huge increase in the number of modification proposals submitted to the Uniform Network Code since its implementation in June 2005, many of which have been granted urgent status. There are many other examples.

The effect of additional significant supply costs should not be underestimated, as seen for example in recent increases in Balancing Services Use of System Charges (BSUoS). For example, BSUoS for the month of November 2005 was 75% higher than the average of the previous twelve months. For a non-vertically integrated company this uncertainty and lack of opportunity to influence elements within the calculation of costs of this particular aspect of cashout means a level of uncertainty that may ultimately be too high a risk to sustain.

This leads on to our concerns about the lack of a level playing field with regard to procurement of energy supplies required to fulfil our clients' requirements. The impact of Vertical Integration on market liquidity, especially around baseload and peak products, should not be underestimated. Indeed the industry press has reported that traded volumes have reduced from levels as high as 14TWh reported in the summer of 2003, to as low as just 3TWh at one point during the summer of 2005. Additionally whilst the volume of peak has reduced considerably more than baseload, with the spread between baseload and peak widening from approximately £4/MWh to around £20/MWh, wholesale prices have been seen to increase in excess of 130%.

As a monitor of market fundamentals we are sure that you are well aware, and share our concerns, with regard to this particular aspect of our current energy market and trust that you agree that this is an area which requires urgent investigation especially in response to the recent exits we have witnessed by several of the smaller niche supply participants.

Gaz de France ESS would be willing to participate in a review, once initiated by Ofgem. Should you require any further information please contact me on 0113 306 2122 or 07736 107 020.

Yours sincerely

Barbara Vest
Regulatory Affairs Manager