

TOTAL GAS & POWER LIMITED

Ofgem
The Office of Gas and Electricity Markets
9 Millbank
London
SW1P 3GE

24 August 2007

Your Ref: GDT/TRA/MS/4

Dear Sirs,

Proposal to modify Standard Special licence conditions A4, A5 and D11 of the Gas Transporter licence

We refer to your letter of 20th July, 2007 and thank you for the opportunity to comment on the Proposals.

To recap, the Recommendations made in your letter are as follows:

Recommendation 1

Amend the reasonable endeavours obligation contained in Standard Special Licence Conditions A4, A5 and D11 so that Distribution Networks are able to update charges twice a year on 1 April and 1 October, or any other time as directed by the Authority.

Recommendation 2

Ofgem recommends reducing the notice period for indicative charges related to a change in the level of charges from 150 days to three months, thus reducing the variation currently being seen between indicative and definitive changes.

Total Gas & Power Limited's (TGP's) views in relation to the above questions can be summarised as follows:

Update charges twice a year on 1 April and 1 October

TGP notes that Ofgem considers that this proposal would better facilitate Distribution Networks in discharging their licence obligations with respect to setting charges by allowing them the opportunity to guard against over or under recovery against allowed revenue and thus help to minimise variability in the level of charges between formula years that has been particularly evident since the sale of the Distribution Networks.

TGP's view is that from an administrative perspective as well as a customer relations perspective it would be preferable to limit the number of price changes during a contract year. Therefore, TGP feels that under no circumstances should prices change more than once a year.



Moreover, TGP feels that as contracts tend to be struck on an annual basis for the duration of a Gas Year or years (from October to October), in those contracts which do not permit the pass through of transportation costs, a within year change would be difficult to manage. This is a real problem for some I&C players as their contracts tend to be volume based and therefore the supplier is at risk of under-recovering revenues while the customer may not see the full benefit of price reductions. TGP therefore feels that this framework would be particularly damaging to those suppliers or shippers focused in a particular market sector and who do not have a broad gas portfolio.

TGP also feels that this proposal is at odds with work being done elsewhere in the industry. Currently, the Joint Office of Gas Transporters' 95:5 capacity/commodity split proposal DNPC03 and various other Mod proposals such as Mod 0162 and 0163 seeking to improve transparency are all aimed at smoothing price variability providing stability and certainty. Ofgem's current proposals do not sit within the general framework of these other proposals as they assume ongoing unpredictability and swings in revenues.

Reducing the notice period for indicative charges

In addition to the objections to the first recommendation, TGP is not in support of the reduction of the notification period from the current 5 months to 3 months.

TGP considers that three months is too short a period to allow it to ensure that the modified charges are sufficiently notified and explained to all of its industrial and commercial customers, given the effect such changes could have on long standing relationships. TGP believes that a longer notice period of at least 6 months would allow sufficient time to notify customers and prepare them for higher charges.

More generally, although price stability is at the centre of these proposals, TGP considers that if Distribution Networks require shippers to pay for Distribution Networks' overspending in one year immediately the year after, rather than having the effect of allowing prices to rise gradually and stabilize, they are more likely to keep on rising dramatically year after year and thus to remain unpredictable.

One way forward would be for shippers to be allowed to pay for Distribution Networks' overspending over a 3 or 4 year period. If the costs are spread proportionally over the years, the impact on prices is not going to be so dramatic. Although such an approach has already been considered and rejected, TGP would strongly recommend further consideration of this kind of approach.

Yours sincerely

David Faragher

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