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29 August 2006

Dear Julian,

**RE: Draft Modification Report:- 0094 – “Reconciliation following AQ Amendment, SSP becoming LSP with change of <20% or 15,000kWh”**

**RE: Draft Modification Report 0095: "Reconciliation following AQ Amendment, SSP becoming LSP following change of Registered User"**

**RE: Draft Modification Report 0096: "Reconciliation following AQ Amendment, SSP becoming LSP following inter process amendment of AQ"**

Thank you for the opportunity to offer comments on these three draft modification reports.

As the proposer of these modifications, British Gas Trading (BGT) supports their implementation.

A fundamental principle underpinning the competitive gas market is that of fair and equitable apportionment of costs and charges, in particular ensuring that these fall in the correct place, whether this is upon an individual party or, at an aggregate level, a market sector.

In 2004 the implementation of modification 0640 resulted in a significant improvement to the accuracy and equitability of the gas settlement processes. The intent of that modification was to enable xoserve on behalf of the Gas Distribution Network Owners to identify sites where an AQ had been erroneously amended and to correct these inaccurate AQs for both the current and future gas year. The change has been successful in improving the accuracy and equitability of settlement, reducing the volume of unreconciled energy and providing an incentive upon shippers to ensure that AQ amendments are accurate.

Presently, however, there are a number of restrictions on the extent to which xoserve can correct erroneous AQs. These exceptions exist not because they are necessary for the

operation of an efficient and effective settlement system, but because at the time the value of unreconciled energy captured in these exception areas was believed to be very small. This has been proven not to be the case, with a total volume of energy equating to some 1,407,037 Mwh\*, representing some £17m at today's energy costs.

Taking each exception area in turn:

0094 - Reconciliation following AQ Amendment, SSP becoming LSP with change of <20% or 15,000kWh. This accounts for some 35%\* of unreconciled energy. An inaccurately calculated AQ on a very large I&C site would be tolerated providing it was within 80% of the accurate AQ.

0095 - Reconciliation following AQ Amendment, SSP becoming LSP following change of Registered User. It is the intent of this Modification Proposal that where this reconciliation does take place, the reconciliation quantities are applied to current and previous User in proportion to the duration of their registration of that supply. Without this modification, significant amounts of energy will continue to be allocated to the incorrect sector, i.e. that this will be allocated in aggregate across SSPs rather than correctly applied to the LSP sector.

We believe that the implementation of this modification will have a favourable impact upon supply competition. Shippers will have more accurate AQs than is currently the case, and these AQs will be better aligned to the actual consumption of customers, be these recently acquired or otherwise.

0096 - Reconciliation following AQ Amendment, SSP becoming LSP following inter process amendment of AQ. BGT believes that this exclusion, contained at 7.4.3 (c), is not only unnecessary, but also provides a loophole by which a shipper could manipulate AQs, providing they make a slight amendment later.

In simple terms, presently for each of these exception areas, AQs are being inaccurately amended, but a process is not being applied to correct this inaccuracy. As a consequence, the User community is allowing inaccurate and inequitable settlement to persist, along with the opportunity for manipulating settlement costs via the AQ Review process. For example, presently it is possible to manipulate AQ amendments to achieve a 19% reduction in AQs.

We understand that xoserve currently operates processes that identify meter points falling in to these exception areas, and that the removal of these exception categories would simplify, rather than complicate, industry processes.

In raising these modification proposals, BGT is seeking to build upon the improvements introduced in June 2004, with the implementation of Mod 640. By improving the accuracy, equitability and efficiency of gas settlement processes, our proposals will ensure accurate allocation of costs to shippers, and market sectors, improving decision making, and therefore will further the relevant objectives, by securing effective competition between relevant shippers and relevant suppliers. This is in accordance with Special Standard Condition A11 of the Gas Transporter Licence.

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\* Information provided by xoserve

Our modification proposals DO NOT change the way in which a shipper would operate the AQ Review process – or any other industry process. Instead, they ensure that if a shipper operates present AQ amendment processes inaccurately, the consequences of such an error are corrected. For this reason we believe that our modification proposals should and can be implemented immediately, and can be applied with regards to any AQ amendment which has been made erroneously as part of the 2005 AQ Review, in respect of the 2005/2006 Gas year. This would be consistent with the implementation approach and rationale for modification 0640. We would therefore welcome the implementation of these modification proposals at the earliest possible opportunity.

To summarise the intention and impact of these modifications, the industry currently has the information to improve the accuracy of settlement, but is not making use of it. Further, only very modest amounts of work are required in order to begin to use this data, which will have a positive effect upon the fairness of charges across industry participants.

Please don't hesitate to contact me if you have any queries about this response.

Yours sincerely

Chris Wright  
**Contracts Manager**