

Modification Panel Secretary  
Joint Office of Gas Transporters  
Ground Floor Red  
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Solihull  
West Midlands  
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Dear Julian

**Re: Draft Modification Report 0115/0115A**

Corona Energy (“Corona”) wishes to submit the following in response to the above draft modification report.

### **Introduction**

Corona is strongly opposed to the implementation of either of these Modification Proposals. Corona understands that the industry is dissatisfied with the performance of RbD as reconciliation amounts have increased in recent years<sup>1</sup>. Ofgem initiated a consultation in March 2006 which set about identifying a number of issues which have led to the deterioration in performance. The consultation has not concluded although Ofgem is currently administering the RbD issues log which implies it is eager to understand and assist the industry in overcoming the problems highlighted. Corona fully supports a more fundamental review of RbD, both from a short term remedial angle to a longer term, more radical examination of the viability of introducing individual supply point reconciliations for all customers. In the meantime, Corona understands and appreciates that it may be appropriate to enhance the current approach through modifications to the UNC, however, we are clear that any radical changes at this juncture, as outlined in Mods 0115/0115A, are likely to prove counterproductive and potentially at odds with longer term aspirations.

We have welcomed a number of modifications which have sought to improve the current processes e.g. modifications aimed at improving the AQ process. It is our view, however, that Modification Proposal 0115 and its alternative are on one level likely to undermine longer term aspirations and more immediately, are based on spurious assumptions, which do not assist the industry in focusing its efforts on making changes which will improve the current processes. On a commercial level we are very concerned that the Proposals do not reflect the operation of the I&C market.

The core of this response will focus on the assumptions set out in the proposals as these form the bases of the justifications for change in the shorter term, however, we urge the industry to consider the longer term implications and whether implementation of one of these proposals would conflict with future aspirations and associated technological advancements. In particular we might suggest that; widening the scope of RbD will only serve to

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<sup>1</sup> As stated by Ofgem in its Review of Reconciliation by Difference, March 2006.

undermine moves to introduce closer to real time meter reading and further decrease the potential for moving towards actual meter point reconciliation.

### **Critique of the Modification Proposals**

In essence, both Proposals make the same points; that due to clear cross-subsidisation across customer types, those customer types “benefiting” from the cross subsidy should be exposed to a share of the NDM error to which they contribute. It is our understanding that the only difference between the Proposals is in the definition of the advantaged customer types; Mod Proposal 0115 identifies all Large Supply Points, whereas, Mod Proposal 0115A identifies non-monthly read Large Supply Points.

Modification Proposal 0115 identifies a number of areas where it claims errors can be targeted. Corona has commented on each of these areas in turn and seeks to establish that either these errors are immaterial and/or more likely to prevail in the domestic sector.

### **Unreconciled Energy**

Corona’s portfolio contains both monthly and non-monthly read customers.

Corona has a diverse portfolio ranging from RbD sites through to Monthly Read and DM sites. It has significant portions of its portfolio in the LSP and SSP sectors

Corona believes that read performance in the I&C sector is good and will improve due to the roll-out of AMR and other new technologies. These advances will eradicate cash-flow issues related to the provision of periodic reads thereby greatly improving the reconciliation process across all sectors.

### **Theft of Gas**

Modification Proposal 0115A draws on actual data provided by xoserve at a recent Distribution Workstream. The data clearly shows that the I&C market barely contributes to the overall volume of “recorded theft” and as the Proposal suggests there are no perverse incentives on this market sector to engage in these activities and not to employ processes which would detect and mitigate against such incidents occurring. Furthermore, it is reasonable to assume that non-recorded theft is more likely to occur in the domestic sector due to the relative infrequency of site visits. As we showed in the previous section, meter reading performance across all I&C sites is high and as a result incidents of theft are likely to be identified during such visits. Finally, Corona wholeheartedly agrees with GdF’s assertion that due to the billing arrangements it is far more likely that theft would be detected by the I&C shipping/supply community.

### **System Leakage**

This is primarily an issue for transporters insofar as they have control over the volume of leakage and should be incentivised to manage those volumes. Corona understands that new arrangements will be introduced into the various DN Price Controls to further this aim and we strongly believe that this is the most appropriate way of controlling and minimising the volumes attributed to leakage. It is our understanding that the Price Control arrangements to date have not been effective, principally due to increasing gas costs. On another note, if it is argued that Leakage should be targeted at the relevant Users then we would offer the following observations. Leakage is proportionate to the distance traveled, as the more pipe the gas passes through the more is likely it is to be lost. I&C customers tend to be connected to higher pressure tiers than domestics and on average will use less pipeline to take delivery of the commodity. On this basis we would conclude that domestic customers are more likely to contribute to leakage than I&C customers and should, if it is believed that costs should be borne by Users rather than transporters, incur greater costs.

### **LDZ Offtake Metering**

Similar to the issues raised in the previous sub-section, the performance of LDZ Offtake Metering is a matter for transporters. Clearly, the Farningham correction and more recently the Wales & West meter correction have highlighted the material impact poor performance at this level can have on Users. We are aware that Modification Review Group 0126 is to some extent considering the treatment of these errors and the Terms of Reference also refer to potential incentives on Transporters to increase the frequency and accuracy of metering inspections. Corona believes that this approach is appropriate and supports any moves towards incentivising Transporters to manage their businesses in a manner which is consistent with their Licence obligations. In terms of uncontrollable deviations we understand that offtake arrangements, at the LDZ and Direct Offtake levels contain tolerances within which the meters may drift. We do not believe that there is any evidence to suggest that there are inherent biases within metering installations and it is equally likely that meters will over or under read within the tolerances. We can only conclude therefore, that on average meters record accurate readings (this assumes that there are no mechanical failures).

Finally, as we suggested in the supply point metering sub-section as I&C meter reading performance is high then the actual energy consumed by these customers is correctly reconciled in any case.

### **Supply Point Metering**

Corona is uncertain of the issues relating to this sub-section, but can only assume that they are similar to those identified above. On this basis we would suggest that there is no evidence of bias in these forms of metering and as a result, on average, meter readings applied to the sector are accurate.

### **Unregistered Sites/Supplier Inputs and Deeming algorithms**

In these areas, Corona does not believe that there are perverse incentives on I&C Shippers to skew data and act in an inappropriate way. There is no evidence to suggest that significant numbers of sites are unregistered or that AQs are being improperly managed. In recent years, following the data problems experienced immediately after the introduction of the Network Code and the roll out competition, Corona and other Shippers have gone to great lengths and expense investing in systems and processes to improve critical central data. Although Corona has no evidence to corroborate this view, it would be reasonable to assume that the incidences of unregistered sites would be far greater in the domestic sector. This view is based on the fact that there are significantly more customers in this sector.

Again, in terms of AQ's, Corona might suggest that there could be a definite incentive to understate domestic AQ's while operating under RbD. Again, we have no evidence to indicate whether the AQs are understated, but it is clear that an incentive does exist.

Finally, in terms of deeming algorithms we are not clear what the Proposer is inferring. Algorithms are determined by the Transporters and it is incumbent upon them to ensure that they allocate energy in the most effective manner. As long as meter reads are provided the impact of deeming algorithms is fairly immaterial as the meter points are reconciled against actual energy consumed

## **Charging**

Modification Proposal 0115 proposes that all charges irrespective of the size of the supply point will be reconciled on a single charge basis. This means that a LSP would be charged transportation charges at one rate, but reconciled on another. This conflicts with the principle enshrined in SLC4A of the Gas Transporter's Licence that charges should be cost reflective. Unlike implemented Proposal 0640, which permits for a one off reconciliation at a higher rate, Proposal 0115 allows for ongoing reconciliations at incorrect rates. As a result, Corona does not believe that Proposal 0640 can be seen as providing a precedent and any change to the basic principle that final charges should be cost reflective must be strongly resisted.

Modification Proposal 0115A appears to allow for reconciliations to be performed on variable rates. It is not clear, however, if the Proposal is suggesting the adoption of just two rates, or two formulae which are applied to determine the applicable rates. If the former scenario is true, then as with Proposal 0115, this proposal would fall foul of SLC4A and generate final transportation costs, post reconciliation which are not cost reflective. If the second scenario was true, then Corona believes that the level of costs to implement the Proposal would be inhibitive. Without question, significant changes to systems would need to be made and it would be impossible to use the ad hoc route as an alternative.

## **Additional Issues**

Corona notes that the Proposals have chosen not to refer to the problems which exist in the IPGT market. The reconciliation performance of IPGTs is

poor and in our view is a significant contributor to the problems experienced under RbD. At a recent Billing Ops Forum, xoserve reported that 82% of IPGT Logical Meter Numbers had not been reconciled up to the date at which the presentation was drafted. Clearly, the performance of IPGT must be a major concern for the industry, particularly for those Users shipping on these networks and those operating under RbD. Corona recommends that the industry would be well-placed to focus its attention on this particular sector as we believe that improved performance by the IPGTs would go some way into improving the RbD process

## **Modification Report Sections**

### **Better Facilitating of the Relevant Objectives**

Corona believes that Modification 0115 undermines SSpC A11 1(a) and (b) as it proposes to reconcile transportation charges on a rate not consistent with that determined for the recovery of unreconciled transportation charges. For this reason reconciled charges will not be reflective of costs and will not lead to efficient and economic operation of the pipeline systems.

From the evidence and arguments we have provided Corona firmly believes that neither Modification Proposal 0115 nor 0115A will better facilitate SSpC A11 1(d). Both proposals will incorrectly smear costs onto a market segment resulting in inflated costs and cross-subsidies. This will lead ultimately to unwarranted higher prices for I&C customers.

Also and as stated the outset of this response we believe that the effective broadening of RbD is inconsistent with the aim to encourage advancements in metering and data transfer technologies. Corona believes that this would be detrimental to the future development of the UK Gas Industry.

### **Impacts on Security of Supply, Total System operation and industry fragmentation**

None

#### **Implications for Transporters**

##### **a) operation of the system**

None

##### **b) development and operating costs**

None

##### **c) cost recovery**

None

##### **d) consequences on price regulation**

None

#### **Impact on contractual risk for transporter**

None, although Modification Proposal 0115 is inconsistent with the Transporter's charging obligations

#### **Impact on UK Link and other Systems**

Corona does not believe that it would be acceptable for the billing processes to be handled offline. This would create excessive workloads and costs for shippers.

**Impacts on Users, including contractual risk etc...**

As stated above we do not believe that the ad hoc route should be considered as a reasonable way forward. This will only serve to increase costs to Shippers and therefore, customers. Secondly, if a charging regime is arrived at which would make cost apportionment unpredictable, Shippers will be forced to generate risk premiums further increasing costs to customers.

**Impacts on Terminal Operators, Consumers, Connected Systems Operators, Suppliers, Producers, and any non-Code Parties**

Due to the cross-subsidies inherent in both proposals, certain I&C customers will cross-subsidise other market sectors. Prices to these I&C customers will not reflect the true costs they impose on the system. Meter point reconciliation is effectively undermined and further reduces the incentives on customers to invest in AMR or other forms of smart metering.

**Consequences on legal and regulatory obligations for all Parties**

None

**Advantages of the Modification Proposals**

- None

**Disadvantages of the Modification Proposals**

- Will create cross-subsidies across market segments due the incorrect allocation of costs and failure to understand the correct drivers behind the NDM errors e.g. transporter failure, IPGT failure and shortcomings in the domestic market
- Will undermine initiatives to introduce AMR and smart metering
- Will further dilute incentives on domestic shippers to improve data quality e.g AQ's.

We trust you find our comments useful and if you have any questions then do not hesitate to get in touch.

Yours sincerely



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