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Correct Apportionment of NDM Error Modification Reference Number 0115/0115A

Dear Julian,

On behalf of RWE npower, I would like to thank you for the opportunity to respond on Modification Proposals 0115 & 115A. As the Draft Mod Report has presented both proposals in the same document we will make our representations in this single letter. These proposals are to make significant changes to the way the market costs are apportioned and thus have been subjected to considerable scrutiny at all levels of our organisation.

We support the implementation of Mod 115 but do not support the implementation of Mod 115A.

The present arrangements associated with Reconciliation by Difference were introduced in 1998, as a prerequisite to the continued rollout of competition to the domestic small supply point sector. The concept of RbD was mainly introduced for two reasons. Firstly, it was to accommodate both the very short timescales that the industry had to meet the opening of the market. Secondly, there were concerns that systems would not be able to manage the volumes of data that a full meter point reconciliation process might require. Whilst there were concerns that imbalance between actual and deemed consumption would be a result of meter reading shortfalls, it was thought that this would be corrected over time as meter reads were obtained.

It is now clear from the independent demand verification analysis undertaken by xoserve that the smear aspect of the RbD charge is not a function of reconciling small supply point meter reading or deeming shortfalls. Rather than the inappropriate allocation of costs as part of the RbD charge is a consequence of multiple other measurement failures that are inherent in the system. It is important to realise that these weaknesses are applicable equally to all non-daily metered sites and not just the domain of the SSPs.

It is difficult to understand why one particular sector to the market should subsidise another by having all these extra costs loaded on to it without good reason. Indeed it is one of the duties of the regulator to protect sections of society

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such as the fuel poor. Continued allocation of these costs onto the residential market only is socially and morally wrong.

However it is not the function of these modifications to right social wrongs, but improve the workings of the gas market in an economic and efficient manner.

The table below shows the level of RbD charge to the domestic (SSP) sector. This represents over 2% of LDZ throughput. The independent demand verification exercise undertaken by xoserve, highlights a persistent year on year overcharge to the domestic sector of over 2%.

Year	TWH
1999	- 19.610
2000	- 14.506
2001	- 18.429
2002	- 11.322
2003	- 10.657
2004	- 12.407
2005	- 9.370
2006	- 13.054

These figures suggest that whilst some of the original concerns about the quality and accuracy of meter reads may have reduced the charge there is still a significant volume of energy that the SSP Shipper have to carry. Also in the early days of RbD the wholesale price of gas was very much lower than today's prices and there is no evidence of a prolonged return to those sorts of levels. As a consequence whilst the volumes may have stabilised at lower levels the financial implications may be higher than they were previously.

The concept of a charge to manage cost adjustments in both Transportation, and gas following a meter read is necessary. However the process has been distorted so that a number of unidentified costs can simply be allocated to a section of the market without proper regard to their identification and validation. In fact the ease of apportionment of these costs encourages slack processes and discourages financial rigour as some parties are isolated from its impacts.

A great deal of work has been undertaken to identify what these measurement issues could be. However due to the design of the system and processes it is not possible to precisely identify what proportion each type of measurement deficiency contributes to RbD. What is clear that the following measurement deficiencies do exist and apply to both the LSP and SSP sectors.

1. LDZ off-take metering
2. Shrinkage
3. End User Theft
4. Bypasses
5. Independent Gas Transporter CSEPs & NeXAs
6. Unrecorded Sites
7. Unregistered and Unconfirmed Sites
8. Supply Point Metering
9. Supplier Processes
  - \* AQ Review Process
  - \* Correction Factors
  - \* User Suppressed Reconciliation Values
10. Deeming Processes

Gaz de France has raised the alternative modification proposal 0115a and in so doing they acknowledge the faults of the RbD process but base their claim that the smearing aspect as proposed in 115 should not apply to them because there is no evidence of theft of gas. We can understand why a Shipper would want to defend its cost advantage; but the argument to support their case is fatally flawed. It ignores all the other factors which make up the deficiencies. Due to the size of some of the monthly read sites an unregistered site even for a relatively short period could contribute significantly to the size of the problem. Unrecorded bypass gas is more likely to occur in the larger end of the Monthly Read market than in the domestic markets, but the SSP sector has had to carry these costs since the market was fully opened. We do not believe that the case for GdF's Mod is sound and therefore we are unable to support Mod 115a.

Mod 115 proposes an effective and appropriate solution to the problem of mis-allocated costs. It does not require complicated algorithms, nor contain multiple variables. We agree that RbD should be smeared at the same energy and transportation charging rate to all NDM supply points based on throughput.

Should you like to discuss any of the issues raised above please do not hesitate to contact me.

Yours sincerely,

Simon Howe.  
Gas Network Codes Manager