

TOTAL GAS & POWER LIMITED

Modification Panel Secretary
Joint Office of Gas Transporters
Ground Floor
51 Homer Road
Solihull
West Midlands
B91 3QJ

17 May 2007

Dear Julian,

Modification Proposals 115 / 115a Correct Apportionment of NDM Error.

Thank you for the opportunity to comment on the above UNC Modification Proposals. We apologise for the late submission of our representation.

Total Gas & Power Limited (TGP) is strongly opposed to the implementation of either of these Modification Proposals.

Although TGP recognises that there are shortcomings in the way Reconciliation by Difference (RbD) currently operates and fully welcomes a review of RbD, it would prefer a complete review of the RbD process as opposed to piecemeal modifications to the existing system. It therefore feels that neither Mod 0115 nor Mod 0115A are appropriate solutions to the current situation.

TGP has carried out an analysis of its own portfolio and has concluded that in excess of 93% of our monthly read sites are read within a 2 month window and that in excess of 90% of non monthly read sites are read within 6 months (Please refer to Appendix A). We therefore feel that, in our experience, adequate information is available about NDM sites and the problems are not reflected in either Mod. We do, however, support initiatives to have more accurate information on site consumption – as demonstrated by proposing Mod 088 (Extension of DM Services to Enable Consumer Demand Side Management).

Mod 0115 proposed by British Gas Trading (BGT)

Mod 0115 was originally put forward by BGT and developed via the Distribution Workstream. The Mod attempts to modify the methodology presently used in RbD in addressing the apportionment of unreconciled gas allocated to Small Supply Points.

When applying the RbD, the cost of these unallocated gas charges are smeared or spread out across shippers to SSPs via the current RbD mechanism.

Mod 0115 seeks to change this methodology so that these charges would also be smeared across all Non Daily Metered (NDM) Large Supply Points (LSPs), which are typically large consumers such as industrial premises, as opposed to just the SSP market. The main arguments for this are that theft and unregistered sites are not exclusive to the SSP market and it would seem appropriate for the LSP market to share the costs.

There has been opposition to Mod 0115 as it is felt that it is disproportionate to smear these gas and transportation charges across all NDM LSPs for the following reasons:



- 1) At present, any apportionment of “Non-Daily Metered (NDM) error” (i.e. the unreconciled volume of gas that has not been identified as being apportioned at off take point in NDM sites) takes into account issues such as shrinkage, end user theft, system leakage and unregistered sites. As LSPs consist of large professionally run industrial units, they are less likely to be affected by issues such as theft, leakage and unregistered meters. Therefore, the criteria presently used to calculate any apportionments under the RbD do not apply to LSPs. As a result it would be unfair to LSPs to have any apportionment for unreconciled gas assessed in the same way as the SSPs, who are more likely to be affected by those issues. We believe that this view is supported by the figures made available by Xoserve.
- 2) Annually (according to GDF’s figures) 98% of monthly read sites are reconciled and therefore to suggest that the SSPs and the LSPs should be treated in the same way would not be correct.
- 3) Mod 0115 suggests that transportation charges should be smeared at the rate applicable to SSPs. As a consequence, the transportation charges applicable to LSPs would increase because these charges would now have to be calculated at the rate currently applicable to SSPs, which is higher due to their lower consumption of energy. So, if the RbD methodology becomes the same for SSPs and LSPs (or more correctly monthly read LSPs and non monthly read LSPs), monthly read LSPs would be treated unfairly as they would now be charged incorrect transportation costs.

TGP considers that Mod 0115 is not effective, as it proposes to reconcile transportation charges using a rate which is inconsistent with that initially charged. As a result reconciled charges are not likely to be reflective of the real costs involved.

We further agree with Corona’s and Gazprom’s comments on issues such as Unreconciled Energy, Theft of Gas, System Leakage, LDZ Offtake Metering and Supply Point Metering.

Modification 0115A proposed by GDF:

Mod 0115A proposes that unreconciled energy be apportioned to all NDM sites by excluding the monthly read metered LSPs from the process, on the grounds that the reconciliation performance of these sites at 98% p.a. is unlikely to result in unallocated gas in this sector.

As an alternative to Mod 0115, GDF has proposed that a different transportation charge be levied in relation to monthly read LSPs instead of them having to pay the higher SSP rate. Mod 0115A seeks to use a lower LSP transportation rate applicable to NDM supply points which, they believe, would be simpler to apply and would be a more proportional rate to apply to such a smear.

Whilst TGP agrees with GDF’s view that Mod 0115 is inappropriate in that SSPs and LSPs should be treated differently, TGP does not believe that the exclusion of monthly read meters from the RbD process, as proposed in Mod 0115A, is an appropriate alternative.

Conclusion:

TGP recognises that there are shortcomings with the RbD process but does not agree with either of the Mods.

TGP feels that both Mods are based on unsubstantiated assumptions, which do not assist the industry in focusing its efforts on making changes which will improve the current processes.

We are also concerned with the costs involved if transportation charges are calculated at the SSP rate. We feel that this does not clarify the position, is inequitable and it will have the effect of penalising small I&Cs. Due to the cross-subsidies inherent in both Mods, certain I&Cs will cross-subsidise other market sectors. Prices to these I&Cs will not reflect the true costs they impose on the system. This will have the effect of undermining meter point reconciliation and reduce the benefits of investing in AMR or other forms of smart metering.



Although TGP sympathises with the view that the SSP market should not bear the whole RbD allocation we do not agree with the current proposals, nor do we agree with the exclusion of large NDM Supply Points as proposed in Mod 0115A. Therefore we do not support implementation of either Mod. We suggest however that further industry discussions take place to reconsider the RbD process as a whole and which would result in a proposal which is fair to both SSPs and LSPs.

We hope you find our comments useful and should you have any queries then please do not hesitate to contact us.

Yours sincerely

David Faragher
Head of Legal & Regulation

