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Dear Julian,

**RE: MODIFICATION PROPOSAL 0115A – “Correct Apportionment of NDM Error”**

Thank you for the opportunity to comment on the above modification proposal.

British Gas Trading (BGT) is not supportive of this modification.

We are pleased to note that the Gaz de France (GDF) modification proposal 0115A acknowledges that a cross subsidy exists between the Larger Supply Point (LSP) and Smaller Supply Point (SSP) sectors. We are however disappointed that the proposal seeks to retain that cross subsidy in the monthly read sector, though understand the commercial motivation for protecting such a cross subsidy.

The current arrangements in the Uniform Network Code (UNC) allow Shippers to nominate non-monthly read sites to monthly read, irrespective of the level of consumption at the supply point. Under modification proposal 0115A, an LSP Shipper could avoid any Reconciliation by Difference (RbD) charge, or incentives associated with it, by nominating its whole portfolio as monthly read. This would consequently invalidate any removal of cross subsidies intended by the proposal.

Measurement failures do exist and affect the Non-Daily Metered (NDM) monthly read sector. We can point to cases of theft, reconciliation deficiencies e.g. USRVs, common metering standards, and numerous other issues which exist in the NDM monthly sector and affect RbD. We have set out in further detail, within Appendix (I), what these measurement failures are and why we believe they are equally prevalent in the monthly read sector.

There has been no firm evidence presented to prove that the monthly read sector should not be exposed to RbD charges, or to prove that all measurement failure errors relate exclusively to the rest of the NDM sector.

The incentives upon the LSP NDM sector to identify and tackle issues that result in RbD are perverse. LSP Shippers receive no benefit from any reduction of RbD, but could in fact face increased costs in terms of administration, or indeed energy and transportation charges. A major benefit of our modification proposal 0115 is that incentives are broadened across the whole NDM sector. We believe this approach will stimulate a greater effort across the industry to tackle the root causes of RbD, thereby reducing it. For the monthly read sector to escape such incentives, it would significantly dilute the extent to which LSP Shippers would engage on RbD related issues.

We note the element of GDFs proposal regarding the application of transportation charging rates. We understand why, for some Shippers, it might be desirable to apply differing charge rates, across both the SSP and LSP sectors, however in developing our proposal we fully explored a number of alternatives with xoserve and other interested industry parties, all of which proved to be either inefficient, ineffective or both. We believe that this particular element of GDFs proposal might be well intended however is, in its current state, not sufficiently developed. Had further development work been undertaken, then the same conclusion may have been reached as was during the development of our proposal.

Aside from the availability of a workable method of applying differentiated charging rates, such rates only relate to a small portion of the overall charges to which our proposal relates. Given the extent to which there is presently in existence a cross subsidy by the SSP sector, of the LSP NDM sector, the issue of transportation charge rates should not hold up the immediate reform of the incumbent arrangements and the associated benefits that our original proposal can deliver.

It may be possible for more sophisticated transportation rate mechanisms, should there be any, to be developed by way of progressing further modification proposals after the implementation of 0115. Indeed its implementation would incentivise such development.

We believe that our modification proposal 0115 better facilitates the achievement of the relevant objectives of the Uniform Network Code. It reduces the extent to which cross subsidies exist between Shippers, thereby securing effective competition between them. It also extends the LSP sector incentives to tackle the root causes of RbD, which will in turn stimulate more efficient and economic operation of the pipeline system.

Modification proposal 0115A significantly dilutes these benefits, it would not remove or even significantly reduce the cross subsidies that are currently present across

Shippers, and would leave the monthly sector unincentivised and ambivalent to issues that result in RbD charges.

Should you have any queries with regard to this response, please do not hesitate to contact me 07769 548070.

Yours sincerely,

Steve Briggs  
National Industry Manager

## **APPENDIX (I) - Potential Measurement Failure Points**

As described within our detailed response to modification proposal 0115 under 'Section 5 – Potential Measurement Failure Points', throughout the gas supply chain there are a number of areas where measurement inaccuracies can occur, these are set out below. The risk / benefit of all such measurement failures across the supply chain are currently solely borne by the SSP Sector, via RbD.

These measurement errors are prevalent across both the SSP and LSP market sectors, and within the LSP sector itself is prevalent across both monthly read and non-monthly read supply points.

Whilst it may be possible to argue that some issues affect each sector to different degrees, it is not possible to prove this. As proposed by modification proposal 115a, should monthly read supply points not be exposed to RbD charges, the incentives upon the LSP sector, and particular those Shippers with monthly read supply point portfolios, to detect, quantify and resolve measurement failures would be weaker than those that are upon the rest of the NDM sector. On this basis we argue that RbD costs should be borne equally across all NDM supply points, regardless of meter read frequency.

We have detailed below further comments relating to potential measurement failure points, which should be read in conjunction with Section 5 of our response to modification proposal 115.

### **LDZ Off-take Metering**

The impact of any inaccuracy in the measurement of gas entering the system at an LDZ off-take, has an impact across the whole of the supply point population within the affected LDZ.

There is no evidence to suggest why monthly read supply points should bear any more risk or reward from any LDZ metering off-take measurement inaccuracies, than any other segment of the NDM sector.

### **Shrinkage**

LDZ Shrinkage Factors are reviewed on an annual basis. Shrinkage consists of the following three specific elements, Leakage, Own Use Gas and Theft. It should be noted that theft, or gas flow through unregistered or unrecorded sites, are not included within the shrinkage factor calculations.

Any understatement of shrinkage is currently to the sole detriment of the SSP sector. As shrinkage relates to the whole of the LDZ network infrastructure, any exposure to shrinkage miscalculations relates to the NDM sector in its entirety. There is no justifiable rationale for any particular segment of the NDM sector to be excluded from exposure to RbD charges. It would therefore be inappropriate to exclude monthly read supply points, as proposed by this modification proposal.

### End User Theft

Theft of gas is pertinent to both the domestic and non-domestic markets and all unaccounted for consumption is currently paid for by the SSP sector through RbD. Subsequently LSP sector Shippers and Suppliers have no commercial incentive to proactively identify and resolve cases of intentional consumer theft.

There is no evidence or industry data which shows that the level of undetected theft within the SSP sector is any more prevalent than levels of theft within the LSP NDM sector. Further, there is no evidence or data to support that industry levels of undetected theft within the LSP monthly read sector is any different to that within the LSP non-monthly read sector. However, under the current RbD arrangements the incorrect assumption is made that all theft within an LDZ is attributable to the SSP sector, which subsequently takes the full financial burden.

BGT can confirm that it has detected theft on supply points within the LSP sector. Information relating to these cases can be provided upon request.

### Bypasses

The use of bypasses within the LSP NDM sector is commonplace, specifically where bypasses have been installed by the Gas Transporter when engineering work is required or on the assumption that work will be undertaken at a later date.

The extent of these bypasses vary and can be utilised at both monthly read and non-monthly read supply points. However, those which are installed at larger sites, which are predominantly monthly read, can use significant volumes of unrecorded gas for significant periods of time, particularly where bypasses have not been used in accordance with the rules and obligations prescribed within the Uniform Network Code.

The LSP NDM sector is immune to the costs associated with this unregistered gas, with the risks and costs being solely picked by the SSP sector via RbD. LSP Shippers and Suppliers therefore do not have any incentive to ensure that robust processes are in place to control and limit the impact of unregistered gas through bypasses. Subsequently there is no justification for monthly read sites to be excluded.

## Independent Gas Transporter CSEPs & NeXAs

There is a lack of robustness within the existing settlement and reconciliation processes, that relate to sites connected to Independent Gas Transporters (IGT) networks.

IGT performance in this area has been monitored and reported to the IGT Work Group on a regular basis by xoserve, confirming the existence of a number of problems areas, including the Weekly CSEP Update Process, I&C CSEP Reconciliation and the IGT AQ Review.

These issues, which are currently impacting the IGT market arrangements, are prevalent across all supply points within both the SSP and LSP sectors.

### Weekly CSEP Update Process

Recent statistical information, collated by Ofgem, showed a significant mismatch between the numbers of supply points connected to IGT networks against the number of supply points which are known of by xoserve. This mismatch figure includes supply points across both the SSP and LSP market sectors, including both LSP monthly read and non-monthly read sites.

### I&C CSEP Reconciliation

The lack of reconciliation over such a large number of supply points over such a long period of time has a direct impact to RbD. This is particularly concerning with regard to IGT monthly read supply points, where the level of financial impact resulting from non-reconciliation, can be significant to the RbD community.

### IGT AQ Review

The impact of large IGT I&C supply points, which are not undertaking an annual review of their AQ and particularly those which are monthly read, provides a great deal of uncertainty and financial impact to RbD, particularly where AQ values are subsequently found to be incorrect.

The LSP sector, provides a considerable proportion of the energy associated with connected IGT supply points. The lack of visibility of a large number of connected supply points and the relatively low level of AQ amendment activity are providing risk and cost to RbD.

Further, the poor performance levels of I&C CSEP Reconciliation and the fact that large numbers of LSP monthly read and non-monthly read supply points have never been reconciled, are also providing a significant level of risk and cost to the SSP sector via RbD. The proposed exclusion of monthly read supply points is therefore not appropriate.

## Unrecorded Sites

Unrecorded Sites are those where premises exist that are receiving gas, but are not recorded on industry systems. These sites do not have meter point reference numbers allocated, and it can prove immensely difficult for a new occupant to therefore establish themselves as a customer with a Supplier.

This scenario can and does exist in both the SSP and LSP sectors. By their nature, unrecorded sites remain unknown to the industry and there is no evidence to prove that within the LSP sector, the propensity for unrecorded sites to be in existence is any less within monthly read supply points than it is within non-monthly read supply points.

However, consumption associated with these sites flow directly through to RbD, the costs of which are currently solely borne by the SSP sector. The exclusion of monthly read sites is their unwarranted.

## Unregistered and Unconfirmed Sites

Sites exist, across both the SSP and LSP market sectors, that are recorded on central industry systems (Sites and Meters) but which do not have a registered Shipper.

The existence of these unregistered and unconfirmed sites is resultant of numerous issues such as poor data quality, deficient industry arrangements or poor industry participant behaviour. As this issue is prevalent across both the SSP and LSP sectors and within the LSP sector, across both monthly read and non-monthly read sites, it is not appropriate for one specific segment of the NDM to be excluded from any revised RbD arrangements.

## Supply Point Metering

All gas for consumption leaving the distribution network should be registered on supply point meters.

In our opinion, there is at least as much propensity for the over or under measurement of gas at end user meters in the LSP NDM sector, as there is in the SSP sector, as both the metering technologies utilised within both market sectors and the accompanying standards for meter accuracy, do not differ widely across the majority of the meter point population. This is equally applicable within the LSP NDM sector for both monthly read and non-monthly read meters.

In the LSP NDM sector should either monthly or non-monthly meters under register, whilst revenue is reduced, so is cost. In the SSP sector if meters under register, revenue is lost, but costs stay the same because of the application of RbD which will

balance any shortfall between end user metered gas, and gas metered at LDZ input meters.

There is no evidence to prove that all meters connected to supply points, which are designated as monthly read, have a greater degree of accuracy than other LSP NDM supply points.

## Supplier Processes

### AQ Review Process

The Uniform Network Code prescribes the way in which the annual AQ Review will be undertaken and details the relevant obligations on both Shippers and Gas Transporters.

While there is sufficient assurance that xoserve is operating the AQ Review process in accordance with the provisions of the UNC, there historically has been insufficient transparency regarding the participation and performance of Users.

Under the current arrangements the benefits of reducing AQs are stronger in the LSP sector than they are within the SSP sector, this is equally applicable to both monthly read and non-monthly read LSP NDM supply points.

### Correction Factors

For supply points which consume less than 73,200 kWh per annum, a standard domestic correction factor is utilised in the calculation of energy, with a separate standard correction factor being used for sites consuming between 73,200 kWh and 732,000 kWh per annum.

A bespoke correction factor is calculated, for all sites with an annual consumption in excess of 732,000 kwh, the majority of which should be monthly read, in accordance with the 'Gas Calculation of Thermal Energy Regulations 1996'.

Where there has been an error in the calculation of a bespoke correction factor, there is a propensity for the error to be in favour of the customer, with the amount of energy calculated being less than the volume actually used.

In these circumstances the result of any under calculation to RbD can be significant. Subsequently there is no justification for monthly read supply points to be excluded.



## User Suppressed Reconciliation Values

User Suppressed Reconciliation Values (USRVs) are generated from submitted meter readings, which are deemed by xoserve to be out of tolerance upon validation. USRVs are specific to the LSP sector and can be generated for both non-monthly and monthly read supply points.

It is evident that the existing incentive regime is not working and Centrica has raised UNC Modification Proposal 0141 – “Revision to the ‘User Suppressed Reconciliation Values’ Financial Incentives arrangements”, in order to further improve the operation of the current arrangements.

In the meantime, it is evident that there are a large number of outstanding USRVs and without the timely reconciliation of these affected LSPs, there continues to be a large level of risk upon RbD and to the SSP sector. This is particularly important considering the value of USRVs associated with monthly read supply points can be significant in value.

## Deeming Processes

There are number of various algorithms which are used within the deeming process, across the whole of the NDM sector, including monthly read supply points. Should these algorithms contain any level of inaccuracy the consequences are all inappropriately borne by the SSP sector.

## APPENDIX (II) Analysis of trends in RbD v SSP and LSP market

The following shows detailed statistical comparisons between the scale of RbD charges, versus the relative scale of the LSP NDM, and SSP NDM market.

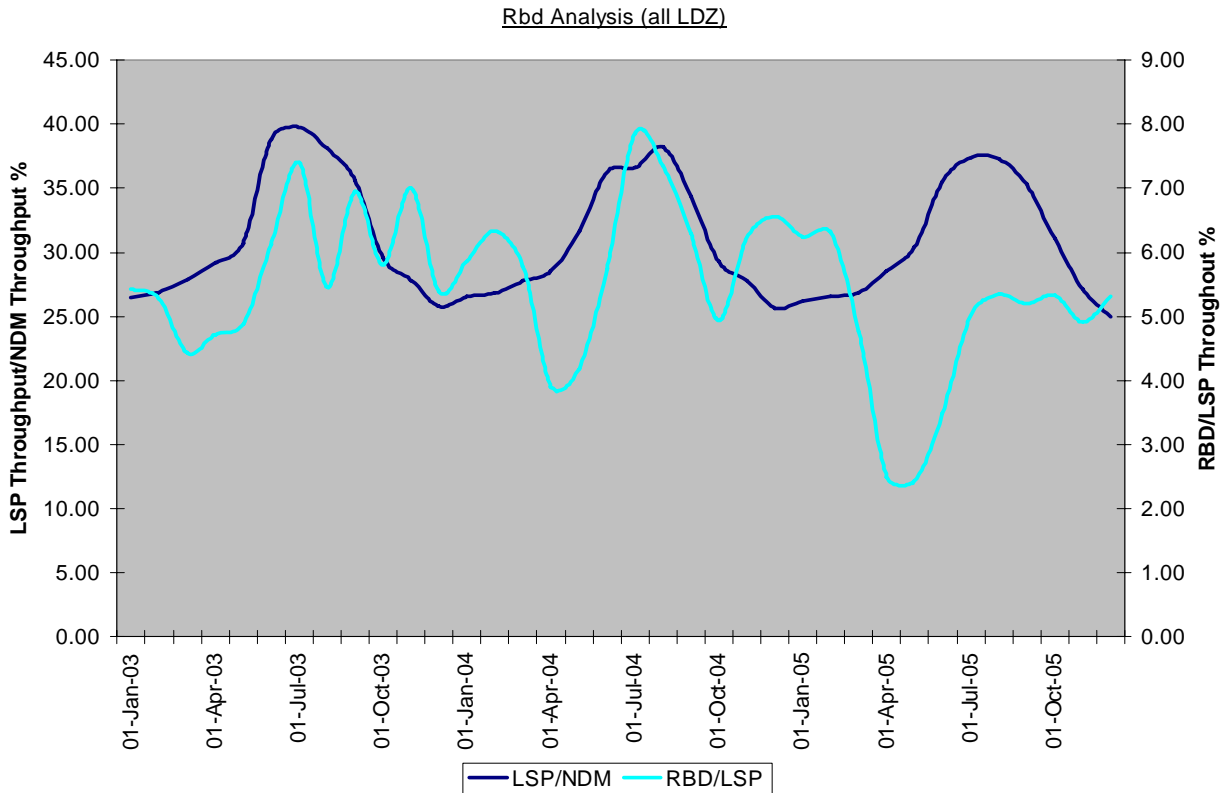
This analysis demonstrates that:

- There is **no** correlation between the scale of the SSP sector and the level of RbD.
- There is potentially a link between the scale of the LSP sector and the level of RbD.

Crucially this analysis includes monthly read sites. Monthly read sites constitute some 80% of LSP NDM throughput and are therefore the dominant factor in driving the correlation between LSP throughput and levels of RbD that our response suggests.

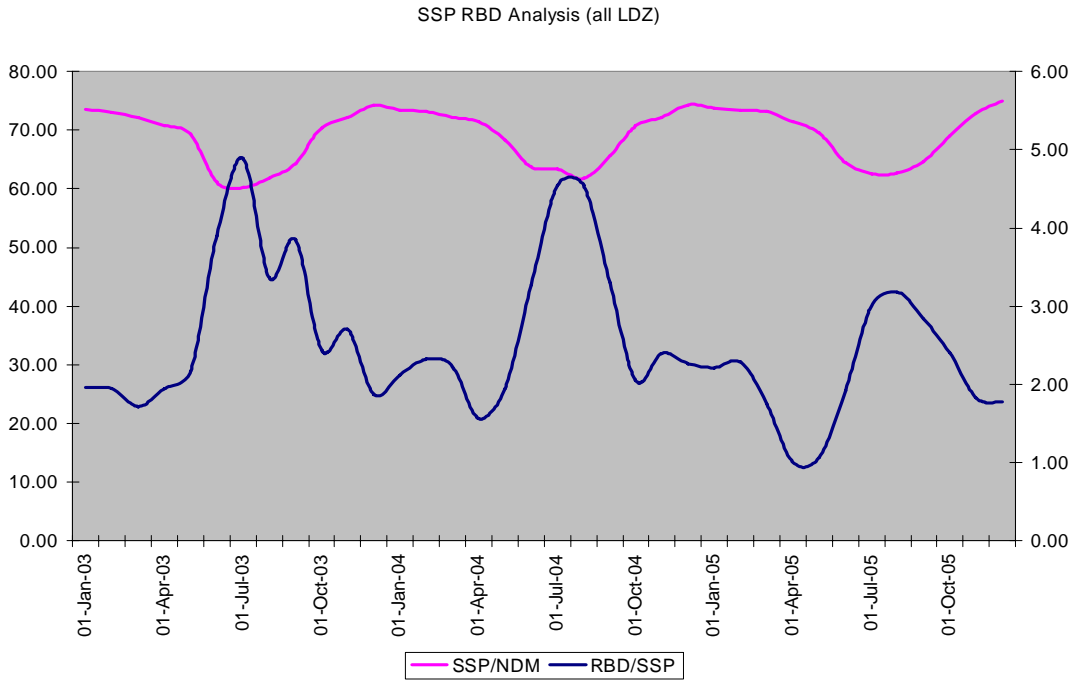
Using flow month data for RbD values and throughput values for the SSP and LSP markets the correlation coefficients were calculated. This analysis was not carried out on an LDZ basis due to potential for bias in regions.

### Comparison of LSP NDM throughput with level of RbD



A correlation / common pattern between the two lines can be seen.

## Comparison of SSP throughput with the level of RbD



No clear correlation between the two lines is evident

This analysis suggests that:

- There is no positive correlation between and SSP throughout RbD levels.
- There is a stronger correlation between LSP throughout and RbD levels.

The data underlying this analysis is shown below:

**Market Flow Data**
**GWh**

	Jan-03	Feb-03	Mar-03	Apr-03	May-03	Jun-03	Jul-03	Aug-03	Sep-03	Oct-03	Nov-03	Dec-03
RBD	1,201	1,059	743	601	497	393	453	298	532	857	1,142	1,077
SSP	61,306	54,488	43,318	30,881	22,951	10,078	9,265	8,852	13,832	35,179	42,235	57,595
LSP	22,125	20,053	16,776	12,723	10,178	6,406	6,120	5,453	7,661	14,777	16,295	20,006
NDM	83,432	74,541	60,094	43,605	33,129	16,484	15,385	14,305	21,494	49,956	58,530	77,601
	Jan-04	Feb-04	Mar-04	Apr-04	May-04	Jun-04	Jul-04	Aug-04	Sep-04	Oct-04	Nov-04	Dec-04
RBD	1,247	1,235	1,134	520	392	387	518	429	488	650	1,037	1,250
SSP	58,781	53,188	50,916	33,309	20,220	11,847	11,421	9,442	14,783	31,771	43,217	55,116
LSP	21,243	19,498	19,583	13,300	9,361	6,744	6,598	5,837	7,753	13,160	16,628	19,040
NDM	80,024	72,685	70,499	46,608	29,582	18,591	18,019	15,279	22,536	44,930	59,845	74,156
	Jan-05	Feb-05	Mar-05	Apr-05	May-05	Jun-05	Jul-05	Aug-05	Sep-05	Oct-05	Nov-05	Dec-05
RBD	1,259	1,244	846	345	248	235	302	320	370	555	871	1,034
SSP	56,846	54,498	48,243	34,492	23,296	12,210	10,029	10,078	13,058	23,099	47,712	58,399
LSP	20,170	19,724	17,718	13,793	10,187	6,732	5,996	5,999	7,120	10,409	17,745	19,463
NDM	77,016	74,222	65,961	48,285	33,483	18,942	16,024	16,077	20,178	33,509	65,456	77,863