Promoting choice and value for all gas and electricity customers

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#### Reconciliation by Difference (RbD) - Initial thoughts

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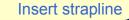
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## Structure of presentation

- Provide a brief summary of respondent views raised from the review of RbD consultation document
- Present Ofgem's initial views given responses received
- Outline Ofgem's proposed way forward

- Ofgem's review of RbD consultation sought views on:
  - RbD process still fit for purpose?
  - materiality of any RbD issue
  - extent to which RbD issues can be addressed by existing industry processes
  - the role of Ofgem



#### -RbD process still fit for purpose?

- Most respondents considered RbD still fit for purpose
  - Achieved its aim- reduce administration costs and burden of reconciling small supply points

#### Longer term

- widespread take up of Advanced Metering technology should prompt a future review of RbD
- Cost Benefit Analysis should be undertaken at that time to evaluate whether RbD continues to be valid or whether an alternative reconciliation process is required

- A number of issues raised with regards to incentives and transparency within the RbD process, for instance:
  - Dynamics between theft and LDZ shrinkage considered to create a perverse incentive on GDNs to detect upstream theft
  - Inadequate iGT incentives to comply either financially or commercially to the terms of their CSEP NExA agreements

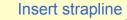
#### Materiality of any RbD issue:

- Issues with the transparency within the RbD process- led to difficulty in establishing the material impact of such issues on RbD calculations
- lack of transparency in xoserve RbD costs- difficult for parties to ascertain the benefits of moving to an alternative reconciliation process



#### Extent to which RbD issues can be addressed by existing industry processes

 Mixed views on the extent to which the current industry processes (such as the AQ and shrinkage processes) are robust



#### Ofgem's role

 Generally, respondents considered that any changes to the industry processes can be made through existing governance arrangements and that Ofgem's role should be limited to these arrangements.

# Ofgem's initial views to the RbD consultation

- RbD fit for purpose for the immediate term
- RbD Issues- addressed under existing industry arrangements
  - E.g. Several recent modification proposals (such as UNC081and iGT Mod SSEP017)
  - Industry feed into the Gas Distribution Price Control Review (GDPCR)
- No regulatory intervention necessary at this stage
  - Up to Industry to take the lead
- Issue with transparency to industry RbD related activities
  - Ofgem to facilitate in co-ordinating industry activity through an RbD issues log

# Ofgem's proposed way forward: RbD issues log (e.g. RbD Audit Sub-Committee)

Item No	1
Issue Title	Improve accuracy of RbD billing/statistics
Date created	Jul 27 2006
Last Updated	Jul 27 2006
Issue Originator	Ofgem's RbD Consultation
Description of issue	<ul> <li>To consider whether the RbD audit should be extended to cover</li> <li>a) all inputs into RbD processes, esp. manual activities and NTS off-take meter data;</li> <li>b) Processes operated by shippers e.g. the AQ review;</li> <li>c) increase duration of auditing processes and sample size; and</li> <li>d) LSP reconciliation trends from shippers read submissions, USVR resolutions and Consumption adjustments.</li> </ul>
Next steps	To put issue as an agenda item at the next RbD Audit Sub- committee.
Related Ofgem area of work?	GDPCR
How Issue was resolved	ONGOING





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### Ofgem's Initial views -Proposed next steps

- Ofgem will liaise with the various industry workgroups/ meetings (E.g. Distribution workstream, RbD Audit sub Committee) to discuss and confirm take up of issues for the RbD issues log
- RbD conclusions to provide a summary or respondent views and an amalgamated RbD issues log.



## **Summary of Presentation**

- Provide a brief summary of respondent views raised from the review of RbD consultation document
- Present Ofgem's initial views to responses received
- Outline Ofgem's proposed way forward



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## Any Questions?

#### Comments can be sent to me at: ndidi.njoku@ofgem.gov.uk

