

Mr Bob Fletcher  
Secretary, Modification Panel  
Joint Office of Gas Transporters  
51 Homer Road  
Solihull  
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10<sup>th</sup> December 2012

Dear Bob

**RE: UNC Modification**

British Gas does not support the implementation of UNC Modification Proposal UNC421 for the reasons set out below.

British Gas does not support the modification because -

1. It focuses on the incorrect performance measurement point
2. The 85% performance target is arbitrary
3. It introduces code conflict
4. The penalty charge is not justified
5. The business case to support the change is unproven

Furthermore, and crucially, because we do not believe this proposal will improve AQs accuracy and we do not believe that this proposal facilitates any of the UNC relevant objectives, including Standard Special Condition A11.1 a) Efficient and economic operation of the pipe-line system, or Standard Special Condition A11.1 (d);

d) Securing of effective competition:

(i) between relevant shippers;

(ii) between relevant suppliers; and/or

(iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.

## **1. Incorrect performance measurement point**

We believe the proposed performance measurement is at the wrong point in the process.

We suggest that the measurement point, following AQ calculation, is too late in the process. AQ calculation is dependent on meter readings, and therefore the proposal is substantially an attempt to improve meter reading submission to Xoserve. The proposal should be targeting year-round meter reading performance, rather than the AQ review.

This proposal provides no incentive to improve meter read submission rates outside of the AQ Review. The target could be met purely by a Shipper obtaining all their AQ changes via the amendment process.

## **2. The 85% performance target is arbitrary**

The proposed 85% performance target is arbitrary and no justification is given as to why 85% was chosen as the target: why is 85% a better target than 84% or 86%? The 85% target is lower than the actual overall performance in both the LSP and SSP sectors in the 2012 AQ Review, which were 89.9% and 92.0% respectively. Why is the proposed 85% lesser of a target than that which already exists for monthly read meters, and a greater target than that for annually read meters?

We believe the 85% performance target will not provide a control around the AQ review. This is a quantitative measurement without an associated qualitative one. The proposal does not provide an incentive for Shippers to set accurate AQs. There is no justification provided as to how this proposal will change Shipper behaviour to the benefit of the industry.

The proposal does not consider LSP AQ Appeals. This presents a risk that a Shipper might fail the target in the AQ Review despite having effectively changed more than 85% of their portfolio's AQs during the gas year in a combination of the AQ Review and AQ Appeals.

## **3. The performance target conflicts with existing standards in UNC**

The 85% figure conflicts with existing standards set out in UNC TPD Section M paragraphs 3.4 and 3.5 which specify meter reading expectations for monthly and annually read meters.

For example, Section M paragraph 3.5 states that each annually read meter should be read at least once every 24 months, and 70% of annually read sites should be read in any 12 month period. The proposal will effectively mean

that each Shipper has to provide a new meter reading, in order to facilitate AQ calculation, for 85% of their annually read sites in any 12 month period.

This conflict must be addressed before the proposal can progress.

#### **4. Penalty charge setting is arbitrary**

Penalty charges are proposed at a fixed amount, 5% of the average AQ in one of 4 AQ bands. No analysis has been presented to show why the proposed charges are appropriate. No provision is made to revise these charges once set.

The proposal would therefore introduce an arbitrary unjustified penalty charge, with no method to change it. The risk is that the penalty charge is set at an incorrect level: if it is too low it will present Shippers with a perverse incentive to leave AQs un-amended and pay the penalty; if it is too high it will become punitive.

#### **5. Business case unproven**

For us the benefits case remains unproven, as no evidence has been provided that AQs which do not recalculate remain too low.

Taking the SSP calculations as an example:

The proposal is based on an assertion that AQs for SSP sites that are not calculated in the AQ Review are lower (by 11%) than they should be, and therefore Shippers who supply these sites are therefore benefitting from lower energy allocation at the expense of other SSP Shippers. The level of misallocation is asserted to be between 3 and 4 TWh.

This conclusion is based upon a comparison between the average AQ (c. 13,000 kWh) for non-calculating SSP sites and for SSP sites where the AQ has been calculated (c. 15,000 kWh). In order to make this comparison, it is assumed that a similar distribution of customer type and consumption exists for both calculating and non-calculating sites.

It is implied that the reason for the lower AQs on the non-calculating sites is that Shippers are deliberately avoiding increasing AQs in order to receive a lower energy allocation.

Scottish Power has provided many calculations, but we do not believe these amounts to evidence that supports the above assertions or prove the assumptions are correct. It is entirely plausible that the opposite is in fact the case: non-calculating AQs are likely to decrease when calculated, in line with the average decline in gas consumption and AQ reduction.

We believe there are specific reasons why non-calculating AQs might reduce when recalculated. Non-calculating AQs are generally associated with a lack of reads and new properties. New properties should have a lower than average AQ due to smaller property sizes and better energy efficiency. This would account for part of the difference between the quoted 13,000 kWh and 15,000 kWh figures.

Regarding the lack of reads it is plausible that non-calculating AQs are genuinely difficult-to-read sites: people who are out during the day when meter readers call and don't submit reads themselves; vacant sites; out of area sites for regionally-focussed suppliers. In all cases we would expect the AQ to reduce when a read is obtained which enables an AQ calculation. In these cases Shippers already have an incentive to obtain meter reads which will result in more accurate, and potentially lower AQs being calculated.

## **6. Summary**

Notwithstanding the above we are sympathetic to the intentions of the proposal, but we believe that it will not have the effect the proposer intends.

The proposal intends to improve the AQ calculation rate, but proposes an arbitrary performance target and penalties, with no evidence provided to explain how this will lead to improved AQ calculation rates and no analysis to show what the benefits to the industry would be.

Rather than improve AQ performance this proposal could create a perverse incentive for an underperforming Shipper to send in reads to ensure it meets the 85% target. As this proposal does not focus on the accuracy of the volumes processed, but rather the quantity of submissions British Gas cannot see the benefit to the industry of implementing this change and therefore we do not support it.

If you have any questions regarding the response from British Gas, please do not hesitate to contact me directly.

Kindest regards,

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British Gas