

Mr John Bradley
Secretary, Modification Panel
Joint Office of Gas Transporters
51 Homer Road
Solihull
B91 3LT

16th April 2010

Dear John

RE: UNC Modification Proposal 0279 – “*Improving the availability of meter read history and asset information*”

British Gas does not support this modification proposal and believes that implementing it will

- Increase manipulation of Annual Quantity (AQ) values by shippers during the AQ Review Process,
- Provide a disincentive on shippers to invest in collecting reads on their portfolio,
- Give valuable data held by shippers without recompense,
- Proposes use of data retrospectively without regard for the fact that the data was not collected with this use in mind, and
- Penalise those shippers not able or willing to take up the new process by exposing them to the costs of developing the new service.
- In addition, we also do not understand the rationale behind the need for three years worth of read history, and do not believe this has been substantiated during the development process.

Furthermore, and crucially, we do not believe that this proposal facilitates any of the UNC relevant objectives, including Standard Special Condition A11.1 (d).

1. Increase in AQ manipulation.

This modification proposal will provide partaking shippers with three years read history on each site which they have gained in the last year, ostensibly so that they can be in a better position to appeal the customer’s AQ during the annual Review Process.

We believe however that, rather than using this information to select the most accurate AQ as the proposer imagines, shippers will instead have a strong incentive to select the most advantageous read pair available, lowering the AQ beyond what may be an accurate value in order to avoid paying for the energy they should. We therefore consider that this modification will not have the appropriate effect of that intended and will actually decrease the accuracy of AQ values held.

We note that although this was flagged during the modification process, there are no suggested remedies in this proposal, for example by bolstering the validation processes which assess the accuracy of appeals or by restricting which readings can be used from the history provided.

We believe that given the large scale of data this modification proposal will see passed to shippers each year, there is a proportionally large risk that the effect of this modification will be to reduce the accuracy of AQs across this industry, distorting competition, and favouring those parties who are simply best at analysing historic read pairs rather than ensuring a level playing field where everyone pays for what they have taken from the system.

2. Disincentive to collect reads.

One of the major incentives on suppliers to collect regular read data from sites is the maintenance of an accurate AQ. We believe that were suppliers simply to rely on obtaining the minimum number of reads permissible for the sites on their portfolio, the current allocation mechanism would place them at a commercial disadvantage compared to those who invest in more regular readings.

This modification will, however, give shippers three years worth of read history for all existing sites on their portfolio, and then once annually for each site they have gained in the past twelve months. This will enable those who invest comparatively little in meter read collection to reduce the costs considered above, and therefore reduce the natural incentive they have to collect those meter readings.

We strongly believe that investment in meter read collection is a behaviour to be encouraged, not simply as a tool to ensure AQs are as accurate as possible, but also to improve the customer experience through reduced frequency of estimated bills and managing energy usage at customer's properties. Were the collection of meter readings to be dis-incentivised in any way across the industry, we believe that the knock on customer impacts would be disproportionate to the potential benefit the proposer has in mind with this modification.

3. Loss of reading assets without recompense.

As above mentioned above, those who invest in collecting meter readings gain a competitive advantage over those who do not. In addition, we note that in a world where suppliers are becoming more energy management experts and less billing agents, the meter reading data a supplier collects itself has an intrinsic commercial value.

This modification considers that the asset of read history should be provided to the incoming supplier without regard for the value of that data, and without compensation for the investment which has been made in collecting it. As well as providing a disincentive to collect meter readings (as above), we do not believe this socialisation of commercial benefits is appropriate in a competitive market, and do not therefore believe that the modification proposal is fair to all parties. We may also consider that this could be resolved by providing the old supplier with suitable compensation for the assets transferred, but in the absence of such a provision, we are unable to support this modification.

4. Proposes use of data retrospectively

This proposal seeks to impose retrospective rules on the use of data which was collected more than three years ago. When these reads were collected, the shipper at that time did so without knowing that they would be passed free of charge to a new supplier on loss, and may have made agreements on the use of that data with third parties which they will now be in breach of under this modification. The very least which must happen with this modification is that it must be implemented in three years time, so that these risks can be avoided.

5. Socialisation of Development Costs

We note that although the costs associated with the ongoing provision of the reports are met by those who take up the service, the development costs of setting this facility up will be paid by all shippers, regardless of whether they take up the service.

Although the development costs are expected to be relatively low, we believe that this sets a worrying precedent about the treatment of new User Pays services which may be followed at a later date, and would have preferred to have seen them somehow incorporated in to the ongoing costs, such that only those who wanted the service paid for it.

6. Three years read history

The rationale behind the provision of three years worth of read history under this proposal is not clear. As we have demonstrated above, the implementation of this modification has some fundamental costs and risks associated with it for shippers, and these costs and risks increase proportionally with the size of the read history provided.

For example, if a supplier needs to submit “*at least 6 months of meter read history to support an amendment to the AQ*”¹ it is not clear to us why that supplier should need more than six months meter read data on gain under this proposal, let alone thirty six months. Why for example can the last red not suffice if the aim is to appeal the AQ?

We are concerned neither rationale nor supporting evidence to explain the need for three years worth of read history in this modification proposal has been presented in this modification proposal, and want to make clear that given the associated value of this meter read data (as above), measures must be put in place before any modification is implemented in this area to ensure that valuable assets are not unnecessarily given away.

How for example, can the proposer be certain that this proposal meets the relevant objectives of the Uniform Network Code when they have not been able to demonstrate that three years worth of read history is the right number?

In addition to the points made above, we also believe this change proposal fails to facilitate the relevant objectives of the Uniform Network Code, specifically:

Standard Special Condition A11.1 (d): so far as is consistent with paragraphs (a) to (c) the securing of effective competition:

- (i) between relevant shippers;***
- (ii) between relevant suppliers; and / or***
- (iii) between DN operators (who have entered in to transportation arrangements with other relevant gas transporters) and relevant shippers.***

We believe that contrary to ensuring “*a more thorough AQ review process*” and removing “*the current inequity*” from the process, this modification will, for the reasons given above, enable shippers to be selective about which read pairs they use to appeal an AQ, reducing their share of gas allocation and making Aqs less accurate. This will have the effect of *distorting* competition between shippers, thus acting against the UNC relevant objective it claims to facilitate.

¹ Draft Modification Report, MOD0279, page 1.

Furthermore, and for the reasons given above, this modification proposal will reduce the ability of suppliers to gain a competitive edge through investment in meter read collection, distorting the market in favour of those shippers who do little to secure meter readings. For these reasons, we believe this modification should be rejected.

If you have any queries relating to this representation, please do not hesitate to telephone me on (07789) 570501.

Yours sincerely

David Watson
Regulatory Manager, British Gas