

Representation

Draft Modification Report

0450 0450A 0450B - Monthly revision of erroneous SSP AQs outside the User AQ Review Period

Consultation close out date: 12 December 2013

Respond to: enquiries@gasgovernance.co.uk

Organisation: ScottishPower

Representative: Marie Clark

Date of Representation: 12 December 2013

Do you support or oppose implementation?

0450 - Not in Support

0450A - Not in Support

0045B - Not in Support

If either 0450, 0450A or 0450B were to be implemented, which would be your preference?

Prefer 0450A

Please summarise (in one paragraph) the key reason(s) for your support/opposition.

Whilst we recognise the inherent issues with the current AQ Review process and RbD, we do not believe that implementation of any of these Modifications would do anything to address the underlying problems associated with the accurate and timely allocation of settlement costs against market sectors. All SSP Shippers face similar issues in relation to erroneous AQs acquired through the change of Supplier Process. Mod 99 which was raised to look at the same was implemented with the intention to address SSP sites acquired through the change of supplier process, which have erroneously high AQ values. This Modification introduced a mechanism for Shippers to appeal newly acquired sites with an AQ >293,00kWh (10,000Therms) to a more representative AQ value in accordance with the house type and geographical area. The procedure for application of this mechanism is live in the UNC and is outlined within Section G, 1.6.13© (i). In order to support this process the CSEP NExA table of AQ values is also included as Annex G3 within Section G. We would highlight here that Mod 392 which received a positive direction from Ofgem and was due to be implemented in June 2012 to update the AQ values within the CSEP NExA Table, however due to the legal text stating that there would be no change to the UNC, the revised AQ values have not been updated. It is ScottishPower's intention to raise a Self Governance Modification in an attempt to have this situation rectified.

Under MOD450/450A, Xoserve has evaluated that due to system constraints the maximum number of SSP Appeals that could be processed per month is limited to 20,000. For Shippers with a portfolio of >50 Meter Points, Mod 450 and 450A propose a minimum level of availability for appeals of 50 per month with Mod 450B proposing a minimum of 200 per month. Additional appeal capacity would be assigned in accordance with a Shippers SSP market share. Introduction of the minimum allowance will introduce a mechanism to allow smaller shippers to appeal all or the majority of their portfolio on a monthly basis if they meet the appeals criteria as set out within the business rules. However larger shippers will receive a limited number of appeal opportunities in accordance with their market share. Limiting the number of appeals of some SSP Shippers introduces a potential cross-subsidy between Shippers and their Suppliers, which could impact the competitive market. ScottishPower believes it is wrong to assume that all larger Shippers/Suppliers can absorb additional gas volumes and costs allocated through the energy balancing mechanism and RbD, through modifications to the UNC such as these proposals. Ultimately any additional costs are reflected in customer bills and should therefore be fully justified and cost reflective. We believe that all Shipper/Suppliers (large and small) can be afforded increased protection from incurring addition costs over and above what they believe their customers are consuming. Whilst we recognise the inherent issues with the current AQ Review process and RbD, we believe that having more rigorous controls surrounding the AQ Review process and by collective engagement by the Industry within the data cleansing exercise, will go some way to assuring increased accuracy in cost allocations.

In addition we are concerned that none of the MOD proposals include robust rules or an audit of AQ appeals and would therefore be a retrograde step for the AQ Review regime. The very nature of the Modification is framed at reducing risk and costs therefore it can be concluded that Shippers will attempt to maximise their commercial position by only appealing sites downward where the AQ values that are overstated. We do not believe that the current drafting of the business rules go far enough to protect the integrity of the settlement process. Under the amendment process for SSP sites there is a requirement that Shippers demonstrate that a balanced and consistent approach to upward and downward movement has been applied when selecting sites that qualify for amendment. None of these MOD proposals includes this safeguard for appeal and therefore is a backward step.

When the original Modification was submitted it was to address SSP sites with erroneous AQ values acquired through the change of supplier process however the proposer of Mod 450 has deviated away from the intent of the original proposal within their current drafting of the Modification and has indeed expressed support not for their own proposal but for Mod 450B. We would therefore question what it is the proposer is trying to address?

Beyond any of the concerns outlined above our paramount concerns about all of these MODs are both the cost and the potential implications on the delivery of Project Nexus. ScottishPower believes that the industry and Ofgem should be focusing on delivering the Nexus functionality as soon as possible, as this will deliver both rolling AQ and site specific reconciliation for all supply points. The benefits to all industry participants and their customers far outweigh anything that could be delivered by any of these proposals. Indeed these

proposals only serve to divert Xoserve's time and resource away from delivering Project Nexus.

Are there any new or additional issues that you believe should be recorded in the Modification Report?

None

Relevant Objectives:

How would implementation of this modification impact the relevant objectives?

We believe that implementation of any of these Modification would have a detrimental impact on relevant objective (d).

All SSP Shippers face similar issues in relation to erroneous AQs acquired through the change of Supplier Process. If all SSP Shippers are given equal opportunity to appeal SSP sites and these are done in a consistent manner across all parties there are no perceived cost benefits to be gained by introducing these Mods. However limiting the number of appeals of some SSP Shippers introduces a potential cross-subsidy between Shippers and their Suppliers. It is wrong to assume that all larger Shippers/Suppliers can absorb additional gas volumes and costs allocated through the energy balancing mechanism and RbD. Ultimately these additional costs are reflected in customer tariffs and bills. We would question why customers who are supplied by one of the larger Shipper/Suppliers should subsidise customers of smaller Shipper/Suppliers?

We believe that all Shipper/Suppliers (large and small) can be afforded increased protection from incurring addition costs over and above what they believe their customers are consuming. Whilst we recognise the inherent issues with the current AQ Review process and RbD, we believe that having more rigorous controls surrounding the AQ Review process and by collective engagement by the Industry within the data cleansing exercise, will go some way to assuring increased accuracy in cost allocations.

Impacts and Costs:

What analysis, development and ongoing costs would you face if this modification were implemented?

The solutions proposed by these Modifications have the potential consequence of introducing a cross subsidy between SSP Shippers/Suppliers and their customers.

Implementation:

What lead-time would you wish to see prior to this modification being implemented, and why?

Insert Text Here

Legal Text:

Are you satisfied that the legal text will deliver the intent of the modification?

No comments

Is there anything further you wish to be taken into account?

Please provide any additional comments, supporting analysis, or other information that that you believe should be taken into account or you wish to emphasise.

None