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21st November 2006

Re: UNC Modification Proposals 0088 “Extension of DM service to enable Consumer Demand Side Management”

Dear Julian

Thank you for the opportunity to comment on the above UNC Modification Proposal. We would like to thank all those that have participated within the Workgroup and developed this modification.

Any opportunity to embrace new technology should be considered as there are often great efficiencies and benefits to be gained by all parties concerned. Unfortunately this modification provides a potential way forward but does not present enough detailed information for us to make a pragmatic decision as to whether to support implementation. The Development Workgroup Report states:

“further consideration would be needed to develop detailed business rules, legal text and an associated implementation plan. In light of the uncertainties around the value of both the costs and benefits of implementing the Proposal, the Group also believe that it would be able to contribute to a full assessment of the merits of the Proposals. This may be conducted by Ofgem in the form of a regulatory Impact Assessment”

We fully agree with the Workgroups position and would support a full RIA being carried out; we would also agree that Ofgem would be best placed to conduct this.

We have reviewed the Workgroup Report based on the extent to which implementation of the proposed modification would better facilitate the relevant objectives, without detailed business rules and only high level costs available this has been carried out based on current understanding.

A11(a) the efficient and economic operation of the pipe-line system;

“Implementation of the Proposal would provide Shippers with an opportunity to provide the Transporters with additional meter readings. This enhanced information will help inform the Transporters about system demand.”

Implementation may present Shippers with an opportunity to provide the Transporters with additional meter readings. The frequency of these additional reads and the number of sites that would become DM (AMR) sites is unknown and we can therefore not determine that this will

24 hour gas escape number
Rhif 24 awr os bydd nwy yn gollwng

0800 111 999*

*calls will be recorded and may be monitored
caiff galwadau eu recordio a gellir eu monitro

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help inform Transporters about system demand. Theoretically the introduction of DM (AMR) would assist in managing the pipe-line in times of supply constraint, however, there is insignificant market intelligence regarding the number of sites that would actually be able to respond in such a way. Information from some 'eligible' end users suggests that they would have to continue taking gas or turn off completely and switch to an alternative fuel supply rather than curtail consumption. The use of DM (AMR) could be used to establish improved annual profiles for end users and be utilised in a constrained period; however, the frequency of reads would need to be sufficiently regular and guaranteed.

A11(c) the efficient discharge of the licensee's obligations under this licence;

"The Transporters are required to develop their systems in order to ensure that all firm customers are supplied except in a situation where demand is greater than that expected in 1 year in 20. Implementation of the Proposal would facilitate an increase in the number of daily meter readings submitted and potentially promote a higher level of demand-side response when required to balance the system"

1 in 20 peak demand is currently calculated using historical weather data going back 78 years and established demand / weather relationships. This uses extreme value distributions and therefore the introduction of DM (AMR) will have no significant impact on the 1 in 20 value.

A11(d) the 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;

We agree with the Workgroups conclusions that 'eligible' end users' variation in demand could be reflected in their supply contract, without the cost and complexity of becoming a DM site, allowing them to have flexibility and benefits that this would bring.

By increasing the number of submitted reads we would expect overall data quality to be increased. This is correct however by changing to DM (AMR), and in effectively reducing the NDM population, thought must be given to the processes that currently do not account for DM (AMR). For example, with a reduced population of NDM sites there would be no additional reads which relate to the NDM load. Hence no increase in accuracy of profiles could be anticipated for the remaining NDM market and it is more likely that profile degradation would occur. If significant sites became DM (AMR) in a particular geographical area there is a risk of a further reduction in accuracy as we could lose the ability to correctly profile by LDZ.

The impact of reduced accuracy for the attribution process would be increased misallocation between the Small Supply Point (SSP) and Large Supply Point (LSP) markets leading to increased reconciliation and volume through the RbD process. This will place higher risk on SSP Shippers if there are delays in completing reconciliations, this would be compounded by an increase in reconciliation filter failures which may not be dealt with in a timely manner.

A11(f) so far as is consistent with sub-paragraphs (a) to(e), the promotion of efficiency in the implementation and administration of...the uniform network code.

xoserve have provided the Workgroup with a high level impact assessment and identified that system development costs would be in the range of £250k - £400k. Without the detailed business rules it has not been possible to include consequential system and process changes operated by xoserve. A prudent estimate of total project cost would be up to or around £500k. All shippers would need to make system and process changes regardless of involvement with DM (AMR) as we would see changes to SPA file formats.

We are in the unfortunate position of not being able to complete a reflective cost benefit analysis for this modification; this again would support a full RIA being carried in order to assess the merits of the proposal. Further end user input would also be beneficial in order to establish the predicted 'take-up' volumes and rate of change.

The implications of implementing the Modification Proposal on security of supply, operation of the Total System and industry fragmentation

The Workgroup believes that implementation of the Modification Proposal would improve the Transporters' ability to manage the network as customers would be more likely to curtail consumption in response to market signals. This is theoretically correct, however, we believe that further study engaging with the end users, that may become DM(AMR), to establish how feasible, likely and to what extent such a response could be expected.

The implications for Transporters and each Transporter of implementing the Modification Proposal, including

a) implications for operation of the system:

The current Modification Proposal allows for the frequency of submitted reads to vary quite considerably, on days where there are fewer reads the residual balance that is allocated across the NDM market has potential to vary significantly. There will be a residual impact on all NDM Shippers as there may be larger differences between the on the day volumes that Shippers have been asked to input against and those values they receive balancing charges against.

b) development and capital cost and operating cost implications:

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We are in the unfortunate position of not being able to complete a reflective cost benefit analysis for this modification; this again would support a full RIA being carried in order to assess the merits of the proposal. Further end user input would also be beneficial in order to establish the predicted 'take-up' volumes and rate of change.

c) extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs & d) analysis of the consequences (if any) this proposal would have on price regulation:

The Workgroup have proposed that any costs should aim to be recovered through the established price control review or Class 3 UK Link change processes. With any significant industry change, such as this, it is difficult for Transporters to account for this within its price control. In order to recover these costs Charging Methodologies could be modified to reflect costs incurred and passed on through the charging mechanisms. With the benefits and beneficiaries of the proposal unclear it does not seem appropriate for costs to be borne by all sectors of the market. The current User Pays and xoserve funding discussions that are taking place have used AMR as an example of where cost allocation could be better facilitated, this method could be considered but will depend on the outcome of the discussions and any possible implantation plans for this modification.

The Consequence of Implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the Modification Proposal



We share the concern that Workgroup have expressed in that if sufficient sites elect to become DM (AMR) then we, as a Transporter, would be unable to provide accurate NDM profiles at the current required level. This could be mitigated against by making further UNC Modifications and changes to current processes but there is no guarantee that such changes would be possible. We also agree with the Workgroup report in such that without Shipper obligations to provide a regular meter reads we would face increased contractual risk with respect to Must Reads.

We are supportive of the work that has been carried out and the need for work to continue. The potential issues raised above are not insurmountable over time; however, until these issues are resolved and a full RIA has been completed we are not in a position to support implementation.

If you have any questions regarding this Modification Proposal Representation please do not hesitate to contact me.

Yours sincerely

Liz Spierling
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Wales & West Utilities