

Representation For. 0094

"Reconciliation following AQ Amendment, SSP becoming LSP with change of <20% or 15,000kWh "
Version 1.0

Date of Communication: 28/08/2006
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Slant: Comments
Strictly Confidential: No

Abstract

ScottishPower response to UNC Modification 94 - 96

Dear Tim

With regard to the above Modifications, ScottishPower has considered the implications of each Modification and wish to make the following comments:

Overview

Modification 640 introduced incentives on a Shipper to proactively amend AQ values where meter readings obtained suggested that the current calculated AQ was understated. When implemented a number of exclusions were included within this Modification as it was believed at the time that the energy value associated with these was of low materiality. Evidence has now been produced that demonstrates that this is not the case particularly in relation to instances where no reconciliation is undertaken where a change of Registered User occurs

Modifications 94-96 seeks to remove these exclusions and allow reconciliations to flow for all Threshold Crossers. We broadly support the intention of all three Modifications as they should provide further protection for RbD Shippers against the misallocation of energy volumes between the Smaller and Larger Supply Point market sectors. However, we have a number of general concerns regarding the ongoing management of AQ values, the natural movement of Supply Points between the Smaller and Large Supply Point market and the risk of inheriting erroneous AQ values as the result of the Change of Supply process.

Mod 94

The general intention of Modifications 94 to 96 is that all movements in AQ value from the Smaller Supply Point market to the Larger Supply Point Market are reconciled regardless of the extent of the AQ change or whether there has been a change of Shipper ownership. We believe that a significant number of Supply Points move naturally from one market sector to another and that to remove the tolerance levels, that currently apply to Mod 640 reconciliations completely, may result in a substantial increase in the number of required reconciliations. Currently the AQ

requires to increase by more than 20% of the Annual Quantity at the start of the preceding Gas Year and at least by 15,000 kWh. The current exclusion levels would appear to be excessive and we consider that before a decision is made to remove them completely that it would be appropriate for analysis to be produced to determine if more suitable and thereafter agreeable levels could be introduced. A revision of the tolerance values to more suitable levels may go a long way to delivering the majority of the benefits outlined within the Modification Proposal while protecting the Industry from having to undertake a large scale number of reconciliations to account for genuine AQ movements across the AQ threshold.

Mod 95

The current Mod 640 exclusion ensures that if there has been a Change in the Registered User since the last revision of the AQ that the new Registered User will not be penalised if the AQ value moves above the AQ Threshold. Where a reconciliation is required, removal of this exclusion will result in reconciliation quantities being applied not only the current Registered User but the previous User in proportion to the period in which they held the registration of that supply. The removal of this exclusion will result in the Incoming Shipper facing the possibility of financial penalties should they inherit erroneous AQ values.

A number of factors are considered when entering a Supply Agreement with the end consumer with the AQ value being the key component that will determine the contract price. Information relating to the annual gas usage is obtain where available from the end consumer in good faith and compared with the AQ value present within the MPRN database. It is not always easily recognisable if the AQ value present within the MPRN database is understated. The Incoming Shipper is no longer protected from incurring Mod 640 reconciliation costs should the AQ value prove to be wrong with the Shipper having to more proactively manage their Supply Point portfolio to ensure that where an erroneous AQ exists that a timely appeal of that value takes place.

One of the key issues that exists is the absence of historic meter reading data to allow the Shipper to make a judgement on whether an appeal is necessary and for this to be initiated at the earliest opportunity after the Registration is complete. While meter reading data can in certain circumstances be sourced from the RFI bureau, the instances where such requests will be made will increase substantially should this Modification be implemented. We would ask that should meter reading data be requested from the RFI Bureau for the purposes of evaluating whether an AQ appeal is deemed necessary, that release of this data will be not be restricted.

ScottishPower are of the view that Shippers need more than ever to proactively manage their AQ portfolio and that appeals to AQ values should be initiated as early in the process as possible. While we believe that greater risks will be present for Shippers should this Modification be implemented, we do at the same time accept that the Industry as a whole will benefit from the correct allocation of costs across the appropriate market sector.

Mod 96

Taking into account the above considerations, ScottishPower support the overall intention of this Modification.

In summary, we believe that a number of factors contribute to the levels of RbD reconciliation reported within the Ofgem RbD Review. Analysis presented indicates that the misallocation of energy volumes as a result of Threshold Crosser activity is a significant contributor to this volume. Increased Meter Point Reconciliation should improve the allocation of energy to the correct market sector.

If you require any further comment, please contact me on the undernoted telephone number.

Kind regards

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