To: The Modification Panel Secretary
UNC Modification Panel
enquiries@gasgovernance.com

11 September 2007

Dear Julian

Draft Modification Report 0167: "Changes to Reconciliation Arrangements Under CSEP NExA"

energywatch has considered the draft modification report relating to UNC Modification 0167 which was raised by Scotia Gas Networks and we wish to make the following comments.

Responsibility for the effective reconciliation of data in the gas market lies with those who record, transfer and receive this data. The hallmark of a sound market is that the level of data quality and consistency is as high as possible when data enters the reconciliation processes, as this data will determine charges levied between parties and the charges and costs ultimately passed through to end consumers.

It appears to us that there are a number of ongoing issues regarding data quality and consistency in the gas market, one instance of which is highlighted by this modification. This may be due to errors in data recording, failures to quality check data that is recorded, and the inconsistency of data held in a number of different market participants' systems (IGTs, shippers, etc.). This would, and does, make accurate reconciliation of energy difficult and creates a growing residue of unreconciled energy through the Reconciliation by Difference (RbD) process which is being passed through in costs to the vast majority of gas consumers without any proper justification. These data quality and consistency issues are also being exacerbated as the IGT networks continue to expand.

We believe that all market participants must take greater responsibility for reducing levels of poor data quality and inconsistency. So long as there is a failure to address these issues effectively, the problem will grow and reach a point where the costs of failing to address the problem are significantly higher for everyone, but more especially end consumers, when compared to the costs of taking effective action. Early and timely intervention is therefore essential. If, as is alluded to in this modification report, a one-off reconciliation is required to correct past failures in the particular area of data addressed by this modification, we believe that parties should undertake such a reconciliation and do so on a fair and equitable basis.

Furthermore, all parties should sit down as an industry to resolve data quality and consistency issues effectively and efficiently across all areas to ensure that the same failures and errors are not repeated. Where this requires adherence to existing contractual obligations, we believe that there is no reason for future failure. If the industry is reluctant to move swiftly to act, Ofgem must take action directly in

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furtherance of its primary statutory duty to protect the interests of consumers. Open and effective competition requires a high level of data accuracy and consistency in systems and processes.

We note that the proposed solution in UNC 0167 has general support but that there may be some minor redistribution of monies through the one-off reconciliation process. We hope that this is not used as a reason for failing to address the issue effectively.

We therefore support UNC 0167, subject to some reassurance that the benefits will indeed outweigh costs of the one-off reconciliation – this is mentioned without any specific data provided to back-up this assertion. We believe that, if the one-off reconciliation does provide a basis for more accurate and effective data recording and reconciliation on an enduring basis, it will assist in reducing the residual unreconciled energy which finds its way into RbD and would bring costs to consumers down as a result.

This response is non-confidential and we are happy for it to be published on the Joint Office website.

If you do wish to discuss our response further please do not hesitate to contact me on 0191 2212072.

Yours sincerely

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Head of Regulatory Affairs

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energywatch is the trading name of the Gas and Electricity Consumer Council