



29th October 2008

Tim Davis
Joint Office of Gas Transporters

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Dear Tim

UNC Modification 194 – Framework for correct apportionment of NDM error
UNC Modification 194A – Framework for correct apportionment of LSP
unidentified gas

Thank you for the opportunity to respond to the above Modification Proposals. ScottishPower has submitted one response, which includes our views on the both Modifications Proposals.

ScottishPower support the implementation of Modification 194 and do not support Modification 194A. Detailed below are our reasons for this decision.

We have previously raised our concerns regarding the level and volume of reconciliation quantities that continue to flow through RbD. When RbD was introduced in 1998 it was anticipated that the volumes of energy requiring reconciliation would decrease with improvements to data quality. However, large volumes of energy (RbD error) not directly associated with genuine reconciliation continue to be allocated to RbD with the costs related to these volumes being borne solely by the SSP market sector.

There are a number of contributing factors to the level and volume of RbD error including theft, iGT reconciliation, CSEP update errors, unregistered sites etc. It has been recognised that each contributing factor requires to be identified and separately evaluated in order to determine by what proportion the value of the risk should be re-distributed and to which market sectors. This work was undertaken by the Development Group formed to discuss Modification 194. It has been broadly recognised by the Industry that that the SSP market sector do not solely contribute to the RbD error and as such it is no longer acceptable that this market sector should bear all the costs. Following identification and evaluation of the causes of the RbD error, there was a requirement for a Framework to be developed with supporting business rules to manage the re-apportionment of RbD error against those market sectors that contribute directly to the error.

Modification 194

The Proposer of this Modification has taken forward the outputs from the Modification 194 Development Group and has put forward a proposed Framework to facilitate the re-apportionment of RbD error. At this time, this Modification does not seek to re-apportion the error to market sectors other than the SSP. We believe that the solution proposed together with supporting business rules represents a pragmatic approach in seeking to address the concerns raised within the Ofgem determination letter for Modification 115 by having undertaken further analysis in an attempt to quantify the materiality of individual impacts and their overall contribution to the extent of the RbD error. In addition Modification 194 proposes that no market sector should be excluded from the re-apportionment mechanism. However the decision to re-apportion costs will be determined against whether that market sector is deemed to make a direct contribution to an individual issue or not. A separate Modification Proposal is required to populate alternative values within the RbD Allocation Table, which forms part of the Framework proposal.

With regard to the basis for the re-apportionment of costs, we support the principle that this should be directly related to the volume of the RbD error and not on a pre-determined fixed value as proposed under Modification 194A. Currently, the SSP market sector is exposed to undue levels of risk exposure as a consequence of energy allocations that they have not wholly contributed to. It is wrong to persist in the discrimination of this one market sector in order to continue the stability of another. The implementation of Modification 194 will facilitate the introduction of the enabling Framework for re-apportionment of the RbD error and as a consequence will ensure that the mechanism is in place to ensure that the appropriate markets sectors take responsibility for measurement and process failures. We believe that the solution proposed is the correct approach to take and will further encourage the Industry to work together to develop the appropriate incentives and process improvements in order to mitigate the potential risk exposure in key areas.

Modification 194A

ScottishPower welcome the work undertaken and commitment shown by Corona Energy in attempting find an alternative solution to the apportionment of the RbD. However we do not agree with the fundamental principles of energy re-apportionment solution suggested by this Modification. As mentioned previously, ScottishPower believe that it would not be equitable to re-apportion the RbD error against the LSP NDM and LSP DM market sectors on the basis of a fixed allocation method. If this concept were to be introduced it would continue the current bias of applying RbD error on differing principles against different market sectors. The SSP market sector is predominantly made up of domestic meter points and while a proportion of the RbD risk currently assigned to this market sector would be removed by this proposal, we are not convinced that the framework put forward under Modification 194A introduces the correct incentives to ensure the timely correction of measurement errors and failures. The costs associated with RbD ultimately impact Supplier tariff and contract offerings to end consumers. The proposed model in our view would continue to impact competition by disproportionately disadvantaging domestic consumers against other market categories.

We accept that the overall intention of this Modification and recognise that there is not definitive formula for calculating the volume of RbD error attributable to each market sector and indeed by each LDZ. However we maintain that one market sector should not be disadvantaged to the perceived benefit of another.

Facilitation of Relevant Objectives

Standard Special Condition A11.1 (d): so far as is consistent with sub-paragraphs (a) to

(c) the securing of effective competition between relevant Shippers and between relevant Suppliers:

ScottishPower believe that Modification 194 will introduce a much-improved basis for the equitable allocation of RbD costs across all market sectors. The implementation of Modification 194 will facilitate the much needed introduction of an enabling Framework for re-apportionment of the RbD error

Modification 194 has been developed following an ongoing drive to improve accuracy and equitability of energy allocation across market sectors. We do accept that Shippers who employ robust management principles against their portfolio could argue that they will incur additional risk and costs as a result of the proposed solution. However, Shippers within the SSP market sector also employ such measures to manage their portfolios however their costs remain unduly influenced by the behaviour of other Shippers and the increased risk factors that currently apply while operating within this market. In our opinion, Modification 194 introduces an improved allocation model for RbD costs than that offered by the current arrangement.

In addition to the solution proposed under Modification 194, we believe that further work is required at an Industry level to address any perceived process failures that exist within key areas with the focus being placed on introducing further incentives, if required, to ensure the timely investigation and clearance of issues that contribute to RbD. Analysis has shown that theft is a major contributing factor to RbD. Following a consultation by Ofgem, the ERA/ENA undertook an extensive project to explore ways of improving the detection and investigation of theft within the gas and electricity markets. The output from this project was the production of a detailed report (June 2007) outlining a series of proposals that would introduce incentives on the appropriate market operators. ScottishPower believe that it is Ofgem's intention to further consult with the Industry on the introduction of these incentives.

ScottishPower believe that competition between Shippers will be improved with the re-balancing of risk exposure. This in turn should give greater confidence and assurance to new entrants who may be proposing to enter and operate primarily within the SSP market sector.

Please do not hesitate to contact me at the above telephone number should you wish to discuss this response in more detail.

Yours sincerely

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ScottishPower