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Dear Tim

Response to UNC Modification Proposal 0209 Rolling AQ

Firstly, apologies for the late submission of this response.

As proposer E.ON strongly support Mod 209. We see a number of benefits for the industry as a whole.

As one of the main underpinning data elements for industry process AQ needs to be representative of demand. AQ is used as a proxy for future demand requirements and as such it is essential that it reflects changes in demand levels as soon as possible. It has been noticeable over the past few years that AQ has significantly lagged the downturn in demand experienced since 2004. This leads, in particular, to Suppliers not being able to reflect consumer demand changes due to increased energy efficiency in reflective contracts and could be hindering the impetus for consumers to improve energy efficiency.

There may well be AQ increases as well as decreases. Again, as a proxy for future demand requirements it would be essential to reflect these changes as quickly as possible.

In line with the majority of the industry we expend significant time and resources during the annual AQ review period. There are many benefits to us from smoothing this work through the year. In addition to smoothing peaks of work it provides training benefits and makes staff turnover less difficult to manage. We would expect these benefits to be similar for xoserve and agree with the

comments that systematisation of some manual adjustments will increase transparency and speed.

Despite the effort expended during the AQ review we see evidence that the current bulk validation masks data issues and allows inaccurate AQ to become live. There should be potential for improvements in this when amendments and validation are spread through the year. The proposed changes will provide a focus on accuracy of reads that is not present currently and should lead to improved data having benefits across the system. The read replacement facility would enable many of the changes to be made using current processes.

Although recent reads can be incorporated into AQ amendment during the summer window, this covers historical data up to 14 months prior to live date and would only be used if the historic reads had not already been used for AQ purposes. The backstop requirement of removing reads from consideration if they have previously been used for an AQ review would make it unlikely that anything more recent could be used. We see as a significant benefit to improvement of AQ the removal of this requirement allowing each read to update the AQ.

The change to seasonal normal will reduce AQ, however this will not impact the misallocation between SSP and LSP markets or improve the general accuracy. As at the last seasonal normal review the impact to every AQ will not be seen in a direct change as the relative relationships will be maintained making this irrelevant for consideration of allocation accuracy.

We also note comments about the commodity charge being a lower percentage of current transportation charges. This misses the improvement in SOQ that would result from AQ updates. This directly impacts capacity charges, which, unlike commodity, are not corrected through reconciliation.

As part of the workgroup we participated in a very thorough industry discussion that has developed detailed business processes and discussed at length the practical mechanics of the system from both Transporter and Shipper perspectives. This has been a great benefit in raising the level of understanding for what is a complex and far reaching proposed change.

We believe that that the implementation of this Proposal will further the relevant objectives as follows :

Standard Special Condition A11.1 (a): *the coordinated, efficient and economic*

operation of the pipe-line system to which this licence relates;

Annual Quantities form the building block of many of the planning and system security activities of Transporters. As such, improving the accuracy of Annual Quantities will fundamentally improve the ability of Transporters to operate the pipeline system in an efficient and economic manner.

Standard Special Condition A11.1 (c): so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;

Increased accuracy of Annual Quantities, , would increase certainty of the derived peak load forecasts. This would enable improved capacity and storage planning as required under the licence. Improvements in cost targeting would also be consistent with the achievement of this objective.

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

Improvement in accuracy of Annual Quantities will ensure that energy is allocated more accurately on the original commodity invoice and minimise movement of energy between market sectors through reconciliation. This would be expected to minimise risk for RbD Shippers and reduce costs associated with reconciliation for all Shippers. It is expected that this would facilitate competition between relevant Shippers, minimise uncertainty for new entrants and increase revenue certainty for DNs. Improvement in accuracy of AQs and consequently SOQs would improve cost targeting.

Yours sincerely

Brian Durber (by email)
Retail Regulation